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

FORM 10-K

(Mark One)

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

OR

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

Commission File Number: 0-21184

MICROCHIP TECHNOLOGY INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**86-0629024**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

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

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 Par Value Per Share	NASDAQ® Global Market

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

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

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

Indicate by checkmark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: x Yes ¨ No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

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

Documents Incorporated by Reference

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

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

FORM 10-K

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PART I

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

Item 1. BUSINESS

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

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

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

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

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

Recent Developments

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

Industry Background

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

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

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

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

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

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

Our Products

Our strategic focus is on embedded control solutions, including:

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

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

Microcontrollers

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

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

Development Tools

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

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

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

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

Analog, Interface and Mixed Signal Products

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

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

Memory Products

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

Technology Licensing

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

Manufacturing

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

Our manufacturing facilities are located in:

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

Wafer Fabrication

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

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

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

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

Wafer Probe, Assembly and Test

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

General Matters Impacting Our Manufacturing Operations

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

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

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

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

Research and Development (R&D)

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

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

Sales and Distribution

General

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

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

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

Distribution

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

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

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

Sales by Geography

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

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

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

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

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

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

Backlog

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

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

Competition

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

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

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

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

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

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

Patents, Licenses and Trademarks

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

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

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

Environmental Regulation

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

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

Employees

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

Executive Officers of the Registrant

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

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

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

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

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

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

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

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

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

Item 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business is dependent on selling through distributors.

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

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

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

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

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

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

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

Our technology licensing business exposes us to various risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to examination of our income tax returns by the IRS and other tax authorities for fiscal 2011 and later. Microchip and SMSC are currently under IRS audit for fiscal 2011 and 2012. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2006 and later. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuing examinations will not have an adverse effect on our future operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

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

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

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

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

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

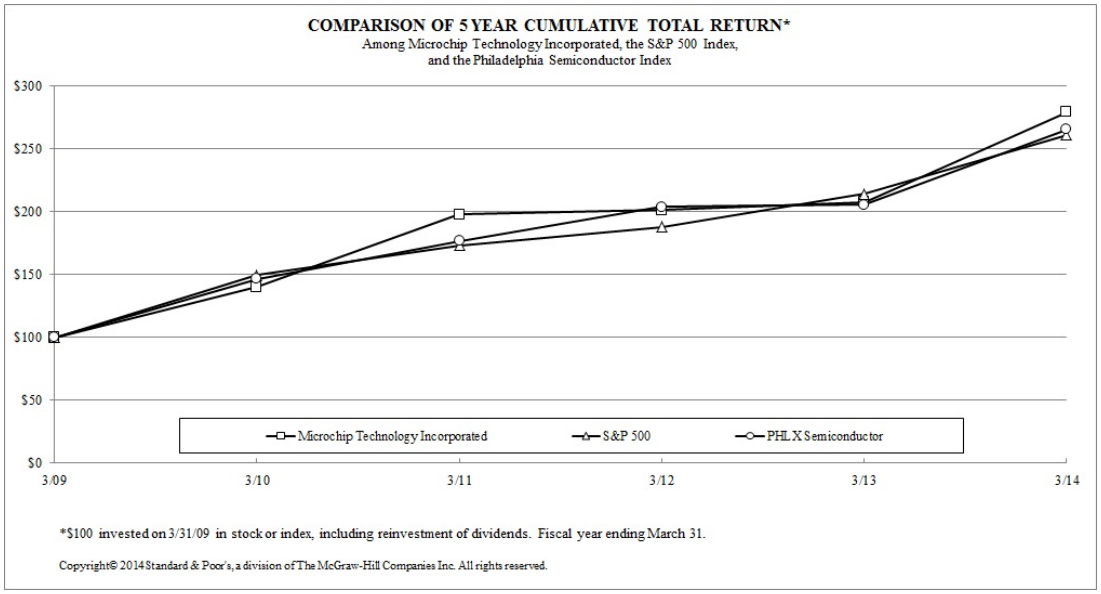
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

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

Stock Price Performance Graph

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



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

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

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

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

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

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

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

Item 6. SELECTED FINANCIAL DATA

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

Statement of Income Data:

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

Balance Sheet Data:

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

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

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

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

[1] During fiscal 2011, we incurred $1.9 million of severance-related and office closure costs associated with our acquisition of SST.

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

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

Note Regarding Forward-looking Statements

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

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

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

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

Introduction

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

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

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

Strategy

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

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

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

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

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

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

Critical Accounting Policies and Estimates

General

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

Revenue Recognition – Distributors

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

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

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

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

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

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

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

Business Combinations

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

Share-based Compensation

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

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

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

Inventories

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

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

Income Taxes

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

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

Junior Subordinated Convertible Debentures

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

Contingencies

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

Results of Operations

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

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

Net Sales

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

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

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

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

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

Microcontrollers

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

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

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

Analog, Interface and Mixed Signal Products

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

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

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

Memory Products

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

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

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

Technology Licensing

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

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

Other

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

Distribution

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

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

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

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

Net Sales by Geography

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

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

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

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

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

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

Gross Profit

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

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

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

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

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

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

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

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

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

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

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

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

Research and Development (R&D)

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

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

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

Selling, General and Administrative

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

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

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

Special Charges

Acquisition Related Expenses

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

Patent Licenses

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

Other Income (Expense)

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

Provision for Income Taxes

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

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

Our Thailand manufacturing operations currently benefit from numerous tax holidays that have been granted to us by the Thailand government based on our investments in property, plant and equipment in Thailand. Our tax holiday periods in Thailand expire at various times in the future. Any expiration of our tax holidays are expected to have a minimal impact on our overall tax expense due to other tax holidays and an increase in income in other taxing jurisdictions with lower statutory rates.

Liquidity and Capital Resources

We had $2,143.5 million in cash, cash equivalents and short-term and long-term investments at March 31, 2014, an increase of $307.5 million from the March 31, 2013 balance. The increase in cash, cash equivalents and short-term and long-term investments over this time period is primarily attributable to cash generated by operating activities being offset in part by dividend payments of $281.2 million.

Net cash provided from operating activities was $676.6 million for fiscal 2014, $459.4 million for fiscal 2013 and $412.0 million for fiscal 2012. The increase in cash flow from operations in fiscal 2014 compared to fiscal 2013 was primarily due to higher net sales and net income during fiscal 2014. The increase in cash flow from operations in fiscal 2013 compared to fiscal 2012 was primarily due to changes in our operating assets and liabilities.

Net cash used in investing activities was $503.3 million for fiscal 2014, $949.9 million for fiscal 2013 and $272.0 million in fiscal 2012. The decrease in net cash used in investing activities in fiscal 2014 compared to fiscal 2013 was primarily due to our acquisition of SMSC in fiscal 2013, which used $731.7 million of cash consideration, net of $180.9 million of cash and cash equivalents acquired. This decrease in net cash used in investing activities offset a fiscal 2014 decrease in cash related to changes in our net purchases, sales and maturities of short-term and long-term investments. The increase in net cash used in investing activities in fiscal 2013 compared to fiscal 2012 was primarily due to our acquisition of SMSC in fiscal 2013.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were $113.1 million in fiscal 2014, $50.8 million in fiscal 2013 and $62.4 million in fiscal 2012. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately $125 million during the next twelve months to invest in equipment and facilities to maintain, and selectively increase, our capacity.

We expect to finance our capital expenditures through our existing cash balances and cash flows from operations. We believe that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient manufacturing capacity to meet our currently anticipated needs.

Net cash used in financing activities was $235.0 million for fiscal 2014. Net cash provided by financing activities was $382.2 million for fiscal 2013 and net cash used in financing activities was $208.1 million for fiscal 2012. We made payments on our borrowings under our credit agreements of $1,103.5 million and $761.0 million during fiscal 2014 and fiscal 2013, respectively. Cash received on borrowings under our credit agreements totaled $1,133.5 million and $1,381.0 million during fiscal 2014 and fiscal 2013, respectively. We paid cash dividends to our stockholders of $281.2 million in fiscal 2014, $273.8 million in fiscal 2013, and $266.2 million in fiscal 2012. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were $37.4 million for fiscal 2014, $35.7 million for fiscal 2013 and $57.5 million for fiscal 2012.

On June 27, 2013, we entered into a $2.0 billion credit agreement with certain lenders. The credit agreement provides for a $350.0 million term loan and a $1.65 billion revolving credit facility, with a $125 million foreign currency sublimit, a $35 million letter of credit sublimit and a $25 million swingline loan sublimit, terminating on June 27, 2018. The credit agreement also contains an increase option permitting us, subject to certain requirements, to arrange with existing lenders

and/or new lenders for them to provide up to an aggregate of $300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the credit agreement may be used for working capital and general corporate purposes. The new credit agreement replaced another credit agreement we had in place since August 2011. At March 31, 2014, $650.0 million of borrowings were outstanding under the credit agreement consisting of $300.0 million of a revolving line of credit and $350.0 million of a term loan, net of $1.1 million of debt discount resulting from amounts paid to the lenders. See Note 15 of the notes to consolidated financial statements for more information regarding the credit agreement.

Our total cash, cash equivalents, short-term investments and long-term investments held by our foreign subsidiaries was $2,085.7 million at March 31, 2014 and $1,782.0 million at March 31, 2013. Under current tax laws and regulations, if accumulated earnings and profits held by our foreign subsidiaries that U.S. taxes had not previously been provided for were to be distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes. The balance of cash, cash equivalents, short-term investments and long-term investments available for our U.S. operations as of March 31, 2014 and March 31, 2013 was approximately $57.8 million and $100.0 million, respectively. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed. We consider our offshore earnings to be permanently reinvested offshore. However, we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities. We expect that a significant portion of our future cash generation will be in our foreign subsidiaries.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations have had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency rates in countries where we conduct operations will not adversely affect our operating results in the future. At March 31, 2014, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to 10 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2014, we had repurchased 7.5 million shares under this 10 million share authorization for a total of $234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of March 31, 2014, we held approximately 18.8 million shares as treasury shares.

On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. The initial quarterly dividend of $0.02 per share was paid on December 6, 2003 in the amount of $4.1 million. To date, our cumulative dividend payments have totaled approximately $2.23 billion. During fiscal 2014, we paid dividends in the amount of $1.417 per share for a total dividend payment of $281.2 million. During fiscal 2013, we paid dividends in the amount of $1.406 per share for a total dividend payment of $273.8 million. During fiscal 2012, we paid dividends in the amount of $1.390 per share for a total dividend payment of $266.2 million. On May 6, 2014, we declared a quarterly cash dividend of $0.3555 per share, which will be paid on June 3, 2014, to stockholders of record on May 21, 2014 and the total amount of such dividend is expected to be approximately $71.1 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend, on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions, our results of operations and potential changes in tax laws.

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

Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2014, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at March 31, 2014 (dollars in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	$ 42,264	$ 12,415	$ 20,048	$ 9,402	$ 399
Capital purchase obligations [1]	42,815	42,815	—	—	—
Other purchase obligations and commitments [2]	32,654	32,586	68	—	—
Borrowings under credit agreement outstanding as of March 31, 2014 - principal and interest [3]	695,685	10,749	21,499	663,437	—
2.125% junior convertible debentures – principal and interest [4]	1,729,372	24,438	48,875	48,875	1,607,184
Total contractual obligations [5]	$ 2,542,790	$ 123,003	$ 90,490	$ 721,714	$ 1,607,583

[1] Capital purchase obligations represent commitments for construction or purchases of property, plant and equipment. These obligations were not recorded as liabilities on our balance sheet as of March 31, 2014, as we have not yet received the related goods or taken title to the property.

[2] Other purchase obligations and commitments include payments due under various types of licenses and outstanding purchase commitments with our wafer foundries of approximately $31.6 million for delivery of wafers in fiscal 2015.

[3] For purposes of this table we have assumed that the principal of our credit agreement borrowings outstanding at March 31, 2014 will be paid on June 27, 2018, which is the maturity date of such borrowings.

[4] For purposes of this table we have assumed that the principal of our convertible debentures will be paid on December 31, 2037.

[5] Total contractual obligations do not include contractual obligations recorded on the balance sheet as current liabilities, or certain purchase obligations as discussed below. The contractual obligations also do not include amounts related to uncertain tax positions because reasonable estimates cannot be made.

Purchase orders or contracts for the purchase of raw materials and other goods and services, with the exception of commitments to our wafer foundries, are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors with short time horizons. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Off-Balance Sheet Arrangements

As of March 31, 2014, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recently Issued Accounting Pronouncements

In May of 2014 the FASB issued Accounting Standard Update 2014-09-*Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are carefully evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard is effective beginning the first quarter of our 2018 fiscal year. Early adoption is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are currently evaluating the transition method that will be elected.

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to our investment guidelines and market conditions. Our investment portfolio, consisting of fixed income securities, money market funds, cash deposits, and marketable securities that we hold on an available-for-sale basis, was $2,143.5 million as of March 31, 2014 compared to $1,836.0 million as of March 31, 2013. The available-for-sale debt securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize any material adverse impact in income or cash flows if market interest rates increase. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates. We have aggregated our available-for-sale securities for presentation purposes since they are all very similar in nature (dollars in thousands):

	Financial instruments maturing during the fiscal year ended March 31,					
	2015	2016	2017	2018	2019	Thereafter
Available-for-sale securities	$ 211,363	$ 364,464	$ 883,305	$ 51,350	$ 9,995	$ 150,227
Weighted-average yield rate	1.41%	0.78%	0.95%	1.01%	1.00%	1.22%

See Note 1 to our Consolidated Financial Statements for additional information on our investments and use of forward contracts.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements listed in the index appearing under Item 15(a)(1) hereof are filed as part of this Form 10-K. See also Index to Financial Statements below.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we evaluated under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as

defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of March 31, 2014, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

Ernst & Young LLP, an independent registered public accounting firm, who audited our consolidated financial statements included in this Form 10-K has issued an attestation report on our internal control over financial reporting as of March 31, 2014, which is included in Part II, Item 9A.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2014, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Microchip Technology Incorporated and subsidiaries

We have audited Microchip Technology Incorporated and subsidiaries' internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Microchip Technology Incorporated and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Microchip Technology Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the March 31, 2014 consolidated financial statements of Microchip Technology Incorporated and subsidiaries and our report dated May 30, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona
May 30, 2014

Item 9B. OTHER INFORMATION

In fiscal 2014, each of J. Eric Bjornholt, our Chief Financial Officer, Mitch Little, our Vice President, Worldwide Sales and Applications, Steve Drehobl, our Vice President, MCU8 and Technology Development Division, and Rich Simoncic, our Vice President, Analog and Interface Products Division, entered into trading plans as contemplated by Rule 10b-5-1 under the Exchange Act and periodic sales of our common stock have occurred and are expected to occur under such plans.

The foregoing disclosure is being made on a voluntary basis and not pursuant to any specific requirement under Form 10-K, Form 8-K or otherwise.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information on the members of our Board of Directors is incorporated herein by reference to our proxy statement for our 2014 annual meeting of stockholders under the captions "The Board of Directors," and "Proposal One – Election of Directors."

Information on the composition of our audit committee and the members of our audit committee, including information on our audit committee financial experts, is incorporated by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "The Board of Directors – Committees of the Board of Directors – Audit Committee."

Information on our executive officers is provided in Item 1, Part I of this Form 10-K under the caption "Executive Officers of the Registrant" at page 10, above.

Information with respect to compliance with Section 16(a) of the Exchange Act, is incorporated herein by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

Information with respect to our code of ethics that applies to our directors, executive officers (including our principal executive officer and our principal financial and accounting officer) and employees is incorporated by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "Code of Ethics." A copy of our Code of Ethics is available on our website at the Investor Relations section under Mission Statement/Corporate Governance on www.microchip.com.

Information regarding material changes, if any, to procedures by which security holders may recommend nominees to our Board of Directors is incorporated by reference to our proxy statement for the 2014 annual meeting of stockholders under the caption "Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2014 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals."

Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to director compensation is incorporated herein by reference to the information under the caption "The Board of Directors – Director Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to compensation committee interlocks and insider participation in compensation decisions is incorporated herein by reference to the information under the caption "The Board of Directors – Compensation Committee Interlocks and Insider Participation" in our proxy statement for our 2014 annual meeting of stockholders.

Our Board compensation committee report on executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation – Compensation Committee Report on Executive Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information under the caption "Executive Compensation – Equity Compensation Plan Information" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to security ownership of certain beneficial owners, members of our Board of Directors and management is incorporated herein by reference to the information under the caption "Security Ownership of Principal Stockholders, Directors and Executive Officers" in our proxy statement for our 2014 annual meeting of stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item pursuant to Item 404 of Regulation S-K is incorporated by reference to the information under the caption "Certain Transactions" contained in our proxy statement for our 2014 annual meeting of stockholders.

The information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of our directors is incorporated by reference to the information under the caption "Meetings of the Board of Directors" contained in our proxy statement for our 2014 annual meeting of stockholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item related to principal accountant fees and services as well as related pre-approval policies is incorporated by reference to the information under the caption "Independent Registered Public Accounting Firm" contained in our proxy statement for our 2014 annual meeting of stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Form 10-K:

(b) See Item 15(a)(3) above.

(c) See "Index to Financial Statements" included under Item 8 to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROCHIP TECHNOLOGY INCORPORATED
(Registrant)

Date: May 30, 2014

By: /s/ Steve Sanghi
Steve Sanghi
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned officer and/or director of Microchip Technology Incorporated, a Delaware corporation (the "Company"), does hereby constitute and appoint STEVE SANGHI and J. ERIC BJORNHOLT, and each of them, with full power to each of them to act alone, as the true and lawful attorneys and agents of the undersigned, with full power of substitution and resubstitution to each of said attorneys to execute, file or deliver any and all instruments and to do any and all acts and things which said attorneys and agents, or any of them, deem advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereto relating to annual reports on Form 10-K, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign such person's name individually and on behalf of the Company as an officer and/or director (as indicated below opposite such person's signature) to the Company's annual reports on Form 10-K or any amendments or papers supplemental thereto; and each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents or any of them, shall do or cause to be done by virtue hereof. This Power of Attorney revokes any and all previous powers of attorney granted by any of the undersigned which such power would have entitled said attorneys and agents, or any of them, to sign such person's name, individually or on behalf of the Company, to any Form 10-K.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 30th day of May, 2014.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Signature	Title	Date
/s/ Steve Sanghi Steve Sanghi	Chairman, President and Chief Executive Officer	May 30, 2014
/s/ Matthew W. Chapman Matthew W. Chapman	Director	May 30, 2014
/s/ L.B. Day L.B. Day	Director	May 30, 2014
/s/ Albert J. Hugo-Martinez Albert J. Hugo-Martinez	Director	May 30, 2014
/s/ Esther L. Johnson Esther L. Johnson	Director	May 30, 2014
/s/ Wade F. Meyercord Wade F. Meyercord	Director	May 30, 2014
/s/ J. Eric Bjornholt J. Eric Bjornholt	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 30, 2014

EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger dated as of May 22, 2014 by and among Microchip Technology (Barbados) II Incorporated and ISSC Technologies Corp.					X
2.2	Tender Agreement dated May 22, 2014 between Microchip Technology (Barbados) II Incorporated and Directors, Certain Officers and Certain Shareholders of ISSC Technologies Corp.					X
2.3	Guaranty Concerning Merger Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated					X
2.4	Guaranty Concerning Tender Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated					X
2.5	Agreement and Plan of Merger dated as of February 9, 2014 by and among Microchip Technology Incorporated, Orchid Acquisition Corporation and Supertex, Inc.					X
2.6	Agreement and Plan of Merger dated as of May 1, 2012 by and among Microchip Technology Incorporated, Microchip Technology Management Co. and Standard Microsystems Corporation, including Form of Voting Agreement	10-K	000-21184	2.2	5/30/2012	
3.1	Restated Certificate of Incorporation of Registrant	10-Q	000-21184	3.1	11/12/2002	
3.2	Amended and Restated By-Laws of Registrant, as amended through October 1, 2013	10-Q	000-21184	3.1	11/8/2013	
4.1	Indenture, dated as of December 7, 2007, by and between Wells Fargo Bank, National Association, as Trustee, and Microchip Technology Incorporated	8-K	000-21184	4.1	12/7/2007	
4.2	Registration Rights Agreement, dated as of December 7, 2007, by and between J.P. Morgan Securities Inc. and Microchip Technology Incorporated	8-K	000-21184	4.2	12/7/2007	
10.1	Credit Agreement, dated June 27, 2013, among Microchip Technology Incorporated, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-21184	10.1	6/28/2013	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.2	Form of Indemnification Agreement between Registrant and its directors and certain of its officers	S-1	33-57960	10.1	2/5/1993	
10.3	Microchip Technology Incorporated 2012 Inducement Award Plan as adopted by the Board of Directors on August 1, 2012	S-8	333-183074	4.8	8/1/2012	
10.4	*2004 Equity Incentive Plan as amended by the Board on August 17, 2012	8-K	000-21184	10.1	8/23/2012	
10.5	*Form of Notice of Grant of Restricted Stock Units (officer) for 2004 Equity Incentive Plan	S-8	333-192273	10.2	11/12/2013	
10.6	Form of Notice of Grant of Restricted Stock Units (non-officer) for 2004 Equity Incentive Plan	S-8	333-192273	10.3	11/12/2013	
10.7	*Form of Notice of Grant for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement)	S-8	333-119939	4.5	10/25/2004	
10.8	Form of Notice of Grant (Foreign) for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement (Foreign))	10-K	000-21184	10.4	5/23/2005	
10.9	*Form of Notice of Grant of Restricted Stock Units for 2004 Equity Incentive Plan (including Exhibit A Restricted Stock Units Agreement)	10-K	000-21184	10.6	5/31/2006	
10.10	*Restricted Stock Units Agreement (Domestic) for 2004 Equity Incentive Plan	10-Q	000-21184	10.3	11/7/2007	
10.11	Restricted Stock Units Agreement (Foreign) for 2004 Equity Incentive Plan	10-Q	000-21184	10.4	11/7/2008	
10.12	*Form of Global RSU Agreement for 2004 Equity Incentive Plan (including Notice of Grant of Restricted Stock Units)	8-K	000-21184	10.1	9/27/2010	
10.13	*Form of Notice of Grant For 1993 Stock Option Plan, with Exhibit A thereto, Form of Stock Option Agreement; and Exhibit B thereto, Form of Stock Purchase Agreement	S-8	333-872	10.6	1/23/1996	
10.14	*Microchip Technology Incorporated 2001 Employee Stock Purchase Plan as amended through March 1, 2012	10-Q	000-21184	10.1	2/6/2012	
10.15	*1997 Nonstatutory Stock Option Plan, as Amended Through March 3, 2003	10-K	000-21184	10.13	6/5/2003	
10.16	*Form of Notice of Grant For 1997 Nonstatutory Stock Option Plan, with Exhibit A thereto, Form of Stock Option Agreement	10-K	000-21184	10.17	5/27/1998	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.17	Microchip Technology Incorporated International Employee Stock Purchase Plan as amended through May 19, 2014, including Purchase Agreement					X
10.18	Microchip Technology Incorporated 2012 Inducement Award Plan	S-8	333-183074	4.8	8/3/2012	
10.19	*Executive Management Incentive Compensation Plan as amended on August 19, 2011	8-K	000-21184	10.1	8/24/2011	
10.20	*Discretionary Executive Management Incentive Compensation Plan	10-Q	000-21184	10.5	2/6/2007	
10.21	Management Incentive Compensation Plan as amended by the Board of Directors on May 17, 2013	10-K	000-21184	10.21	5/30/2013	
10.22	*Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.1	4/1/2009	
10.23	*Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated January 1, 1997	S-8	333-101696	4.1.3	4/1/2003	
10.24	*Amendment dated December 9, 1999 to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.4	4/1/2004	
10.25	*February 3, 2003 Amendment to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan	10-K	000-21184	10.28	6/5/2003	
10.26	*Amendments to Supplemental Retirement Plan	10-Q	000-21184	10.1	2/9/2006	
10.27	*Change of Control Severance Agreement	8-K	000-21184	10.1	12/18/2008	
10.28	*Change of Control Severance Agreement	8-K	000-21184	10.2	12/18/2008	
10.29	Development Agreement dated as of August 29, 1997 by and between Registrant and the City of Chandler, Arizona	10-Q	000-21184	10.1	2/13/1998	
10.30	Addendum to Development Agreement by and between Registrant and the City of Tempe, Arizona, dated May 11, 2000	10-K	000-21184	10.14	5/15/2001	
10.31	Development Agreement dated as of July 17, 1997 by and between Registrant and the City of Tempe, Arizona	10-Q	000-21184	10.2	2/13/1998	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.32	Amended Strategic Investment Program Contract dated as of June 8, 2009 between, Multnomah County, Oregon, City of Gresham, Oregon and Microchip Technology Incorporated	8-K	000-21184	10.1	6/11/2009	
21.1	Subsidiaries of Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney re: Microchip Technology Incorporated, the Registrant, included on Page 50 of this Form 10-K					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
32	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
	*Compensation plans or arrangements in which directors or executive officers are eligible to participate.					

Annual Report on Form 10-K

Item 8, Item 15(a)(1) and (2), (b) and (c)

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

EXHIBITS

YEAR ENDED MARCH 31, 2014

MICROCHIP TECHNOLOGY INCORPORATED
AND SUBSIDIARIES

CHANDLER, ARIZONA

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Microchip Technology Incorporated and subsidiaries

We have audited the accompanying consolidated balance sheets of Microchip Technology Incorporated and subsidiaries as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Microchip Technology Incorporated and subsidiaries at March 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Microchip Technology Incorporated and subsidiaries' internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control—Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 30, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona
May 30, 2014

Item1. Financial Statements

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

ASSETS

	March 31,	
	2014	2013
Cash and cash equivalents	$ 466,603	$ 528,334
Short-term investments	878,182	1,050,263
Accounts receivable, net	242,405	229,955
Inventories	262,725	242,334
Prepaid expenses	31,756	37,439
Deferred tax assets	67,490	80,687
Other current assets	20,238	67,358
Total current assets	1,969,399	2,236,370
Property, plant and equipment, net	531,967	514,544
Long-term investments	798,712	257,450
Goodwill	276,097	271,348
Intangible assets, net	445,499	530,136
Other assets	45,956	41,557
Total assets	$ 4,067,630	$ 3,851,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 74,050	$ 75,551
Accrued liabilities	96,731	127,108
Short-term borrowings	17,500	—
Deferred income on shipments to distributors	147,798	138,952
Total current liabilities	336,079	341,611
Junior convertible debentures	371,873	363,385
Long-term line of credit	300,000	620,000
Long-term borrowings, net	331,385	—
Long-term income tax payable	179,966	182,723
Deferred tax liability	375,316	388,250
Other long-term liabilities	37,550	21,966
Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, $0.001 par value; authorized 450,000,000 shares; 218,789,994 shares issued and 200,002,736 shares outstanding at March 31, 2014; 218,789,994 shares issued and 196,472,856 shares outstanding at March 31, 2013	200	196
Additional paid-in capital	1,244,583	1,255,627
Common stock held in treasury: 18,787,258 shares at March 31, 2014; 22,317,138 shares at March 31, 2013	(577,382)	(682,220)
Accumulated other comprehensive income	1,051	6,935
Retained earnings	1,467,009	1,352,932
Total stockholders' equity	2,135,461	1,933,470
Total liabilities and stockholders' equity	$ 4,067,630	$ 3,851,405

See accompanying notes to consolidated financial statements

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

	Year ended March 31,		
	2014	2013	2012
Net sales	$ 1,931,217	$ 1,581,623	$ 1,383,176
Cost of sales (1)	802,474	743,164	583,882
Gross profit	1,128,743	838,459	799,294
Operating expenses:			
Research and development (1)	305,043	254,723	182,650
Selling, general and administrative (1)	267,278	261,471	208,328
Amortization of acquired intangible assets	94,534	111,537	10,963
Special charges	3,024	32,175	837
	669,879	659,906	402,778
Operating income	458,864	178,553	396,516
Losses on equity method investments	(177)	(617)	(195)
Other income (expense):			
Interest income	16,485	15,560	17,992
Interest expense	(48,716)	(40,915)	(34,266)
Other income (expense), net	5,898	(404)	(352)
Income before income taxes	432,354	152,177	379,695
Income tax provision	37,073	24,788	42,990
Net income	$ 395,281	$ 127,389	$ 336,705
Basic net income per common share	$ 1.99	$ 0.65	$ 1.76
Diluted net income per common share	$ 1.82	$ 0.62	$ 1.65
Dividends declared per common share	$ 1.417	$ 1.406	$ 1.390
Basic common shares outstanding	198,291	194,595	191,283
Diluted common shares outstanding	217,630	205,776	203,519
(1) Includes share-based compensation expense as follows:			
Cost of sales	$ 7,340	$ 8,234	$ 5,648
Research and development	24,554	22,178	14,719
Selling, general and administrative	21,893	27,603	17,922

See accompanying notes to consolidated financial statements

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

	Year Ended March 31,		
	2014	2013	2012
Net income	$ 395,281	$ 127,389	$ 336,705
Components of other comprehensive (loss) income:			
Available-for sale securities:			
Unrealized holding (losses) gain, net of tax effect of $497, $557 and ($339), respectively	(4,377)	2,686	(41)
Reclassification of realized transactions, net of tax effect of $776, $51 and ($58), respectively	(1,595)	(343)	(215)
Change in minimum pension liability, net of tax effect of $55 and $28, respectively	88	52	—
Change in net foreign currency translation adjustment	—	1,439	—
Other comprehensive (loss) income, net of taxes	(5,884)	3,834	(256)
Total comprehensive income	$ 389,397	$ 131,223	$ 336,449

See accompanying notes to consolidated financial statements

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

	Year ended March 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 395,281	$ 127,389	$ 336,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	189,139	204,097	99,424
Deferred income taxes	5,321	(28,368)	21,954
Share-based compensation expense related to equity incentive plans	53,787	52,069	38,289
Excess tax benefit from share-based compensation	(1,411)	(297)	(576)
Convertible debt derivatives - revaluation and amortization	(482)	138	204
Amortization of debt discount on convertible debentures	8,970	8,197	7,512
Amortization of debt issuance costs	1,959	217	219
Losses on equity method investments	177	617	195
Losses (gains) on sale of assets	244	(256)	(411)
Loss on write-down of fixed assets	—	400	—
Impairment of intangible assets	350	—	—
Amortization of premium on available-for-sale investments	10,754	13,186	15,520
Unrealized impairment loss on available-for-sale investments	—	413	2,158
Special (income) charges	(459)	4,400	(1,000)
Gain on shares of acquired company	(2,438)	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(12,508)	386	11,845
(Increase) decrease in inventories	(18,500)	65,867	(35,240)
Increase (decrease) in deferred income on shipments to distributors	8,846	18,867	(31,335)
Decrease in accounts payable and accrued liabilities	(11,633)	(40,914)	(61,455)
Change in other assets and liabilities	49,167	32,957	7,970
Net cash provided by operating activities	676,564	459,365	411,978
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,337,482)	(998,977)	(1,149,145)
Sales and maturities of available-for-sale investments	951,296	856,579	983,500
Acquisition of SMSC, net of cash acquired	—	(731,746)	—
Other business acquisitions, net of cash acquired	(11,187)	(20,556)	(38,580)
Investments in other assets	(9,069)	(4,730)	(5,818)
Proceeds from sale of assets	16,235	306	411
Capital expenditures	(113,072)	(50,818)	(62,370)
Net cash used in investing activities	(503,279)	(949,942)	(272,002)
Cash flows from financing activities:			
Repayments of revolving loan under previous credit facility	(650,000)	(761,000)	—
Repayments of revolving loan under new credit facility	(453,500)	—	—
Proceeds from borrowings on revolving loan under previous credit facility	30,000	1,381,000	—
Proceeds from borrowings on revolving loan under new credit facility	753,500	—	—
Proceeds from issuance of long-term borrowings	350,000	—	—
Deferred financing costs	(7,515)	—	—
Payment of cash dividends	(281,204)	(273,822)	(266,178)
Proceeds from sale of common stock	37,446	35,695	57,457
Contingent consideration payment	(14,700)	—	—
Capital lease payments	(454)	—	—
Excess tax benefit from share-based compensation	1,411	297	576
Net cash (used in) provided by financing activities	(235,016)	382,170	(208,145)
Effect of foreign exchange rate changes on cash and cash equivalents	—	986	—
Net decrease in cash and cash equivalents	(61,731)	(107,421)	(68,169)
Cash and cash equivalents at beginning of period	528,334	635,755	703,924
Cash and cash equivalents at end of period	$ 466,603	$ 528,334	$ 635,755

See accompanying notes to consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Net Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2011	218,790	$ 1,268,318	29,248	$ (888,075)	$ 3,357	$ 1,428,838	$ 1,812,438
Net income	—	—	—	—	—	336,705	336,705
Other comprehensive loss	—	—	—	—	(256)	—	(256)
Issuances from equity incentive plans	3,000	42,596	—	—	—	—	42,596
Employee stock purchase plan	609	14,861	—	—	—	—	14,861
Treasury stock used for new issuances	(3,609)	(107,182)	(3,609)	107,182	—	—	—
Tax benefit from equity incentive plans	—	10,980	—	—	—	—	10,980
Share-based compensation	—	39,527	—	—	—	—	39,527
Cash dividend	—	—	—	—	—	(266,178)	(266,178)
Balance at March 31, 2012	218,790	1,269,100	25,639	(780,893)	3,101	1,499,365	1,990,673
Net income	—	—	—	—	—	127,389	127,389
Other comprehensive income	—	—	—	—	3,834	—	3,834
Issuances from equity incentive plans	2,773	19,935	—	—	—	—	19,935
Employee stock purchase plan	549	15,760	—	—	—	—	15,760
Treasury stock used for new issuances	(3,322)	(98,673)	(3,322)	98,673	—	—	—
Tax shortfall from equity incentive plans	—	(9,896)	—	—	—	—	(9,896)
Share-based compensation	—	52,667	—	—	—	—	52,667
Non-cash consideration - SMSC acquisition	—	6,930	—	—	—	—	6,930
Cash dividend	—	—	—	—	—	(273,822)	(273,822)
Balance at March 31, 2013	218,790	1,255,823	22,317	(682,220)	6,935	1,352,932	1,933,470
Net income	—	—	—	—	—	395,281	395,281
Other comprehensive loss	—	—	—	—	(5,884)	—	(5,884)
Issuances from equity incentive plans	2,858	17,658	—	—	—	—	17,658
Employee stock purchase plan	672	19,788	—	—	—	—	19,788
Treasury stock used for new issuances	(3,530)	(104,838)	(3,530)	104,838	—	—	—
Tax benefit from equity incentive plans	—	1,411	—	—	—	—	1,411
Share-based compensation	—	54,941	—	—	—	—	54,941
Cash dividend	—	—	—	—	—	(281,204)	(281,204)
Balance at March 31, 2014	218,790	$ 1,244,783	18,787	$ (577,382)	$ 1,051	$ 1,467,009	$ 2,135,461

See accompanying notes to consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Microchip develops, manufactures and sells specialized semiconductor products used by its customers for a wide variety of embedded control applications. Microchip's product portfolio comprises 8-bit, 16-bit and 32-bit PIC® microcontrollers and 16-bit dsPIC® digital signal controllers, which feature on-board Flash (reprogrammable) memory technology. In addition, Microchip offers a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, RF, safety and security and interface devices, as well as serial EEPROMs, Serial Flash memories and Parallel Flash memories. Microchip also licenses Flash-IP solutions that are incorporated in a broad range of products.

Principles of Consolidation

The consolidated financial statements include the accounts of Microchip Technology Incorporated and its wholly-owned subsidiaries (Microchip or the Company). The Company does not have any subsidiaries in which it does not own 100% of the outstanding stock. All of the Company's subsidiaries are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title as well as fixed or determinable pricing and when collectability is reasonably assured. The Company recognizes revenue from product sales to original equipment manufacturers (OEMs) upon shipment and records reserves for estimated customer returns.

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

Deferred income on shipments to distributors effectively represents gross margin on the sale to the distributor at the initial shipment date; however, the amount of gross margin recognized by the Company in future periods will be less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of the Company's products to their end customers and price protection concessions related to market pricing conditions.

The Company sells the majority of the items in its product catalog to its distributors worldwide at a uniform list price. However, distributors resell the Company's products to end customers at a very broad range of individually negotiated price points. The majority of the Company's distributors' resales require a reduction from the original list price paid. Often, under these circumstances, the Company remits back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than the Company's cost have historically been rare. The effect of granting these credits establishes the net selling price from the Company to its distributors for the product and results in the net revenue recognized by the Company when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow the Company to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, the Company does not reduce deferred income

on shipments to distributors or accounts receivable by anticipated future price concessions; rather, price concessions are recorded against deferred income on shipments to distributors when incurred, which is generally at the time the distributor sells the product.

At March 31, 2014, the Company had approximately $222.8 million of deferred revenue and $75.0 million in deferred cost of sales recognized as $147.8 million of deferred income on shipments to distributors. At March 31, 2013, the Company had approximately $201.8 million of deferred revenue and $62.8 million of deferred cost of sales recognized as $139.0 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in the Company's income statement will be lower than the amount reflected on the balance sheet due to price credits to be granted to the distributors when the product is sold to their customers. These price credits historically have resulted in the deferred income approximating the overall gross margins that the Company recognizes in the distribution channel of its business.

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

Products returned by distributors and subsequently scrapped have historically been immaterial to the Company's consolidated results of operations. The Company routinely evaluates the risk of impairment of the deferred cost of sales component of the deferred income on shipments to distributors' account. Because of the historically immaterial amounts of inventory that have been scrapped, and historically rare instances where discounts given to a distributor result in a price less than the Company's cost, the Company believes the deferred costs have a low risk of material impairment.

For license and other arrangements for SuperFlash® technology that the Company is continuing to enhance and refine or under which it is obligated to provide unspecified enhancements, non-royalty revenue is recognized over the lesser of (1) the estimated period that the Company has historically enhanced and developed refinements to the specific technology, typically one to three years (the "upgrade period"), and (2) the remaining portion of the upgrade period after the date of delivery of all specified technology and documentation, provided that the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties received during the upgrade period are recognized as revenue based on an amortization calculation of the elapsed portion of the upgrade period compared to the entire estimated upgrade period. Royalties received after the upgrade period has elapsed are recognized when reported to the Company, which generally coincides with the receipt of payment. For licenses or other technology arrangements without an upgrade period, non-royalty revenue from license is recognized upon delivery of the technology if the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties are recognized when reported to the Company, which generally coincides with the receipt of payment.

Shipping charges billed to customers are included in net sales, and the related shipping costs are included in cost of sales. The Company collects and remits certain sales related taxes on sales of inventory and reports such amounts under the net method in its consolidated statements of income.

Product Warranty

The Company typically warrants its products against defects in materials and workmanship and non-conformance to specifications for 12 to 24 months. The majority of the Company's product warranty claims are settled through the return of the defective product and the shipment of replacement product. Warranty returns are included within the Company's allowance for returns, which is based on historical return rates. Actual future returns could differ from the allowance established. In addition, the Company accrues a liability for specific warranty costs expected to be settled other than through product return and replacement, if a loss is probable and can be reasonably estimated. Product warranty expenses during fiscal 2014, 2013, and 2012 were immaterial.

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising costs were immaterial for the fiscal years ended March 31, 2014, 2013 and 2012.

Research and Development

Research and development costs are expensed as incurred. Assets purchased to support the Company's ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their estimated useful lives. Research and development expenses include expenditures for labor, share-based payments, depreciation, masks, prototype wafers, and expenses for development of process technologies, new packages, and software to support new products and design environments.

Foreign Currency Translation and Forward Contracts

The Company's foreign subsidiaries are considered to be extensions of the U.S. Company and any translation gains and losses related to these subsidiaries are included in other income (expense) in the consolidated statements of income. As the U.S. dollar is utilized as the functional currency, gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiaries' functional currency) are also included in income. For a portion of fiscal 2013, certain foreign subsidiaries acquired as part of the SMSC acquisition had the local currency as the functional currency. Once these entities were integrated into the Company's legal structure and intercompany agreements were executed, the U.S. dollar became the functional currency. Gains and losses associated with currency rate changes on forward contracts are recorded currently in income. These gains and losses have been immaterial to the Company's financial statements.

Income Taxes

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent it believes that recovery is not likely, it must establish a valuation allowance. The Company has provided valuation allowances for certain of its deferred tax assets where it is more likely than not that some portion, or all of such assets, will not be realized.

Cash and Cash Equivalents

All highly liquid investments, including marketable securities purchased with a remaining maturity of three months or less when acquired are considered to be cash equivalents.

Investments – Available-for-Sale and Trading Securities

The Company classifies its investments in debt and marketable equity securities as available-for-sale or trading securities based upon management's intent with regard to the investments and the nature of the underlying securities.

The Company's available-for-sale investments consist of government agency bonds, municipal bonds, auction rate securities (ARS), corporate bonds and marketable equity securities. The Company's investments are carried at fair value with unrealized gains and losses reported in stockholders' equity unless losses are considered to be other than temporary impairments in which case the losses are recognized through the statement of income. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security. Dividend and interest income are recognized when earned. The cost of securities sold is calculated using the specific identification method.

The Company includes within short-term investments its trading securities, as well as its income yielding available-for-sale securities that can be readily converted to cash and includes within long-term investments those income yielding available-for-sale securities with maturities of over one year that have unrealized losses attributable to them or those that cannot be readily liquidated. Except as discussed in Note 5, the Company intends and has the ability to hold its long-term investments with temporary impairments until such time as these assets are no longer impaired. Such recovery of unrealized losses is not expected to occur within the next year.

Non-Marketable Equity Investments

The Company's non-marketable equity investments are recorded using adjusted cost basis or the equity method of accounting, depending on the circumstances of each investment. The Company's non-marketable equity investments are classified within other assets on the Company's consolidated balance sheet. The Company's non-marketable equity investments include:

Equity Method Investments: when the Company has the ability to exercise significant influence, but not control, over the investee, it records equity method gain or loss as "gain or loss from equity investments." Equity method adjustments include the Company's proportionate share of the investee's income or loss.

Cost Method Investments: when the Company does not have the ability to exercise significant influence over the investee, it records such investments at cost.

The Company reviews its investments quarterly for indicators of impairment. The impairment review requires significant judgment and includes quantitative and qualitative analysis of identified events or circumstances that impact the fair value of the investment, such as:

- the investee's revenue and trends in earnings or losses relative to pre-defined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes;
- factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee's receipt of additional funding at a lower valuation.

If the fair value of an investment is below the Company's carrying value, the Company determines if the investment is other-than-temporarily impaired based on a quantitative and qualitative analysis, which includes assessing the severity and duration of the impairment and the likelihood of recovery before disposal. If the investment is considered to be other-than-temporarily impaired, the Company writes down the investment to its fair value.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, which is included in bad debt expense. The Company determines the adequacy of this allowance by regularly reviewing the composition of its accounts receivable aging and evaluating individual customer receivables, considering such customer's financial condition, credit history and current economic conditions.

Inventories

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

In periods where the Company's production levels are substantially below normal operating capacity, unabsorbed overhead production costs associated with the reduced production levels of the Company's manufacturing facilities are charged directly to cost of sales.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. The Company's property and equipment accounting policies incorporate estimates, assumptions and judgments relative to the useful lives of its property and equipment. Depreciation is provided for assets placed in service on a straight-line basis over the estimated useful lives of the relative assets, which range from 10 to 30 years for buildings and building improvements and 3 to 8 years for machinery and equipment. The Company evaluates the carrying value of its property and equipment when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective.

Junior Subordinated Convertible Debentures

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

Litigation

The Company's estimated range of liability related to pending litigation is based on claims for which management believes a loss is probable and it can estimate the amount or range of loss. Because of the uncertainties related to both the outcome and range of any potential losses on the pending litigation, the Company is generally unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates, if necessary.

Business Combinations

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

Goodwill and Other Intangible Assets

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. The Company is required to perform an annual impairment review, and more frequently under certain circumstances. The goodwill is subjected to this test during the fourth quarter of the Company's fiscal year. The Company engages primarily in the development, manufacture and sale of semiconductor products as well as technology licensing. As a result, the Company concluded there are two reporting units, semiconductor products and technology licensing. Under the qualitative goodwill impairment assessment standard, management evaluates whether it is more likely than not that goodwill is impaired. If it is determined that it is more likely than not, the Company proceeds with the next step of the impairment test, which compares the fair value of the reporting unit to its carrying value. If the Company determines through the impairment process that goodwill has been impaired, the Company will record the impairment charge in

its results of operation. Through March 31, 2014, the Company has not had impaired goodwill. The Company's other intangible assets represent existing technologies, core and developed technology, in-process research and development, trademarks and trade names, and customer-related intangibles. Other intangible assets are amortized over their respective estimated lives, ranging from one year to ten years. In the event that facts and circumstances indicate intangibles or other long-lived assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets. In-process research and development is capitalized until such time the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

Impairment of Long-Lived Assets

The Company assesses whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment loss through a charge to operating results to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The Company would depreciate the remaining value over the remaining estimated useful life of the asset.

Share-Based Compensation

The Company has equity incentive plans under which non-qualified stock options and restricted stock units (RSUs) have been granted to employees and non-employee members of the Board of Directors. In the second half of fiscal 2006, the Company adopted RSUs as its primary equity incentive compensation instrument for employees. The Company also has an employee stock purchase plan for all eligible employees.

The Company estimates the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. The Company has estimated the fair value of each award as of the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable.

Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. The fair value of RSUs is based on the fair market value of the Company's common stock on the date of grant discounted for expected future dividends. The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under stock participation plans. Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The Company uses a blend of historical and implied volatility based on options freely traded in the open market as it believes this is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the Company's awards. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts. The Company estimates the number of share-based awards which will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate would affect share-based compensation, as the impact on prior period amortization for all unvested awards is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. If forfeiture adjustments are made, they would affect the Company's results of operations. The effect of forfeiture adjustments in the years ended March 31, 2014, 2013 and 2012 was immaterial.

The Company evaluates the assumptions used to value its awards on a quarterly basis. If factors change and the Company employs different assumptions, share-based compensation expense may differ significantly from what was recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate or increase any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that the Company grants additional equity awards to employees or it assumes unvested equity awards in connection with acquisitions.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of investments in debt securities and trade receivables. Investments in debt securities with original maturities of greater than six months consist primarily of AAA and AA rated financial instruments and counterparties. The Company's investments are primarily in direct obligations of the U.S. government or its agencies, corporate bonds, and municipal bonds.

Concentrations of credit risk with respect to accounts receivable are generally not significant due to the diversity of the Company's customers and geographic sales areas. The Company sells its products primarily to OEMs and distributors in the Americas, Europe and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, as deemed necessary, may require collateral, primarily letters of credit.

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

Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In May of 2014 the FASB issued Accounting Standard Update 2014-09-*Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is carefully evaluating its existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard is effective beginning the first quarter of the Company’s 2018 fiscal year. Early adoption is not permitted. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the transition method that will be elected.

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

2. BUSINESS ACQUISITIONS

On November 21, 2013, the Company completed an acquisition which was accounted for under the acquisition method of accounting. The Company had a prior 18.3% ownership interest in the acquired company accounted for as a cost method investment and recognized an approximate $2.4 million gain to write that ownership interest up to fair value in fiscal 2014. The total consideration paid for the remaining 81.7% equity of the business, net of cash acquired, was $9.0 million. The purchase price of the acquisition resulted in purchased intangible assets of $4.1 million and goodwill of approximately $6.4 million. The purchased intangible assets are being amortized over a weighted average period of approximately 8 years.

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

Assets acquired	Previously Reported March 31, 2013	Adjustments	March 31, 2014
Cash and cash equivalents	$ 180,925	$ —	$ 180,925
Accounts receivable, net	58,441	—	58,441
Inventories	86,244	—	86,244
Prepaid expenses	5,617	—	5,617
Deferred tax assets	15,843	—	15,843
Other current assets	17,578	—	17,578
Property, plant and equipment, net	35,608	—	35,608
Long-term investments	24,275	—	24,275
Goodwill	169,065	(3,473)	165,592
Intangible assets, net	10,214	—	10,214
Purchased intangible assets	517,800	—	517,800
Other assets	3,835	—	3,835
Total assets acquired	1,125,445	(3,473)	1,121,972
Liabilities assumed			
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

On April 18, 2012, the Company acquired Roving Networks, a privately-held company. The acquisition was accounted for under the acquisition method of accounting. Total consideration paid was approximately $20.6 million. The acquisition also included contingent consideration with an estimated fair value at the date of purchase of approximately $14.7 million. During the year ended March 31, 2013, the fair value of the contingent consideration was increased to $19.1 million with the related expense of $4.4 million included in special charges. During the year ended March 31, 2014, the fair value of the contingent consideration was increased further to $20.5 million with the related expense of $1.4 million included in special charges. The contingent consideration was fully paid as of March 31, 2014. The purchase price of the acquisition resulted in purchased intangible assets of approximately $22.8 million and goodwill of approximately $8.7 million which was all allocated to the Company's semiconductor products segment. Purchased intangible assets included $10.6 million of developed technology, $10.6 million of customer-related intangibles, $0.3 million of backlog and $1.3 million of in-process research and development. The purchased intangible assets (other than in-process technology and backlog) are being amortized over their expected useful lives which range between four and ten years. Backlog was amortized over one year and in-process research and development

is capitalized until such time the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

On February 9, 2012, the Company acquired Ident Technology AG, a privately-held semiconductor company. The acquisition was accounted for under the acquisition method of accounting. Total consideration paid was approximately $39.5 million. The purchase price of the acquisition resulted in purchased intangible assets of approximately $18.1 million, of which $8.2 million related to in-process technology, and goodwill of approximately $17.4 million which was all allocated to the Company's semiconductor products segment. Goodwill recognized in this transaction is non-deductible. The purchased intangible assets (other than goodwill and the in-process technology intangible asset) are being amortized over a period of 10 years.

3. RECLASSIFICATION OF PRIOR PERIODS

In the quarter ended December 31, 2013, the Company identified an error to the presentation on its consolidated statements of cash flows of the amortization of premium of available-for-sale investments. The Company previously included the amortization of the premium as an investing activity. This amortization is a non-cash expense that should be recorded in the adjustments to reconcile net income to net cash provided by operating activities. The Company has corrected this error in the current period, and has conformed previous periods to the current presentation. Based on the Company's evaluation of relevant quantitative and qualitative factors, it determined that the classification errors are immaterial to the prior period financial statements and the Company plans to correct the comparative presentation of the prior periods in future filings. The effect on net cash provided by operating activities and net cash used in investing activities for the previous periods covered by this report are shown below (amounts in thousands):

	Year ended March 31, 2013		
	As Reported	Adjustment	As Adjusted
Cash flows from operating activities			
Amortization of premium on available-for-sale investments	$ —	$ 13,186	$ 13,186
Net cash provided by operating activities	446,179	13,186	459,365
Cash flows from investing activities			
Purchases of available-for-sale investments	(985,791)	(13,186)	(998,977)
Net cash used in investing activities	(936,756)	(13,186)	(949,942)

	Year ended March 31, 2012		
	As Reported	Adjustment	As Adjusted
Cash flows from operating activities			
Amortization of premium on available-for-sale investments	$ —	$ 15,520	$ 15,520
Net cash provided by operating activities	396,458	15,520	411,978
Cash flows from investing activities			
Purchases of available-for-sale investments	(1,133,625)	(15,520)	(1,149,145)
Net cash used in investing activities	(256,482)	(15,520)	(272,002)

This correction does not affect the Company's consolidated statements of income, consolidated balance sheets, consolidated statements of comprehensive income or consolidated statements of stockholders' equity for any periods.

4. SPECIAL CHARGES

Acquisition Related Expenses

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

Patent Licenses

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

5. INVESTMENTS

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale securities at March 31, 2014 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 684,451	$ 114	$ (3,171)	$ 681,394
Municipal bonds	41,622	101	(14)	41,709
Auction rate securities	9,825	—	—	9,825
Corporate bonds and debt	941,524	3,247	(805)	943,966
	$ 1,677,422	$ 3,462	$ (3,990)	$ 1,676,894

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

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

At March 31, 2014, the Company's available-for-sale debt securities are presented on the consolidated balance sheets as short-term investments of $878.2 million and long-term investments of $798.7 million. At March 31, 2013, the Company's available-for-sale debt securities and marketable equity securities are presented on the consolidated balance sheets as short-term investments of $1,050.3 million and long-term investments of $257.5 million.

At March 31, 2014, the Company evaluated its investment portfolio and noted unrealized losses of $4.0 million on its debt securities with an aggregated fair value of $782.7 million, which were due primarily to higher interest rates and resulting declines in market prices. Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of March 31, 2014 and the Company's intent is to hold these investments until these assets are no longer impaired, except for certain auction rate securities (ARS). For those debt securities not scheduled to mature until after March 31, 2015, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments.

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2014, by contractual maturity, excluding corporate debt of $6.2 million, which has no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	$ 210,129	$ 1,234	$ —	$ 211,363
Due after one year and through five years	1,308,844	2,228	(1,958)	1,309,114
Due after five years and through ten years	142,434	—	(2,032)	140,402
Due after ten years	9,825	—	—	9,825
	$ 1,671,232	$ 3,462	$ (3,990)	$ 1,670,704

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2013, by maturity, excluding marketable equity securities of $5.5 million and corporate debt of $6.2 million, which have no contractual maturity, are shown below (amounts in thousands).

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	$ 350,349	$ 1,933	$ (3)	$ 352,279
Due after one year and through five years	795,952	3,666	(212)	799,406
Due after five years and through ten years	115,901	116	(250)	115,767
Due after ten years	28,327	235	—	28,562
	$ 1,290,529	$ 5,950	$ (465)	$ 1,296,014

The Company had no material realized gains or losses from the sale of available-for-sale marketable equity securities or debt securities during the years ended March 31, 2014, 2013 or 2012.

6. FAIR VALUE MEASUREMENTS

Accounting rules for fair value clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Marketable Debt Instruments

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at March 31, 2014 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Money market mutual funds	$ 192,159	$ —	$ —	$ 192,159
Corporate bonds and debt	—	937,776	6,190	943,966
Government agency bonds	—	681,394	—	681,394
Deposit accounts	—	274,444	—	274,444
Municipal bonds	—	41,709	—	41,709
Auction rate securities	—	—	9,825	9,825
Total assets measured at fair value	$ 192,159	$ 1,935,323	$ 16,015	$ 2,143,497

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

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

There were no transfers between Level 1 and Level 2 during fiscal 2014 or fiscal 2013.

At March 31, 2014, the Company's ARS for which auctions were unsuccessful are made up of securities related to the insurance industry valued at $9.8 million with a par value of $22.4 million. At March 31, 2013, the Company's ARS for which auctions were unsuccessful were made up of bonds related to the insurance industry valued at $9.8 million, securities related to the energy and telecommunications sectors valued at $5.3 million, and student loan securities valued at $18.7 million.

The Company estimated the fair value of its ARS, which are classified as Level 3 securities, based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The significant unobservable inputs used in the fair value measurement of the insurance sector ARS as of March 31, 2014 were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2% to 2.5% adjusted for the liquidity risk premium which ranged from 9.1% to 29.5%. The anticipated liquidity horizon ranged from 7 to 10 years. A significant increase in the liquidity premium or discount rate, in isolation, would lead to a significantly lower fair value measurement. A significant increase in the liquidity horizon, in isolation, would lead to a significantly lower fair value measurement. Each quarter the Company investigates material changes in the fair value measurements of its ARS.

Level 3 liabilities at March 31, 2013 include contingent consideration from the Company's Roving Networks acquisition, which was fully paid as of March 31, 2014.

The following tables present a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the years ended March 31, 2014 and March 31, 2013 (amounts in thousands):

Year ended March 31, 2014	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2013	$ 33,791	$ 6,190	$ (19,100)	$ —
Total gains (losses) (realized and unrealized):				
Included in earnings	1,101	—	(1,370)	(269)
Included in other comprehensive income	(332)	—	—	(332)
Purchases, sales, issuances, and settlements, net	(24,735)	—	20,470	—
Balance at March 31, 2014	$ 9,825	$ 6,190	$ —	$ (601)

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

Gains and losses recognized in earnings using Level 3 inputs for auction rate securities are credited or charged to Other Income (Expense) on the Consolidated Statements of Income. Gains and losses recognized in earnings using Level 3 inputs related to the revaluation of contingent consideration are credited or charged to Special Charges on the Consolidated Statements of Income.

Assets measured at fair value on a recurring basis are presented/classified on the consolidated balance sheets at March 31, 2014 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents	$ 192,159	$ 274,444	$ —	$ 466,603
Short-term investments	—	878,182	—	878,182
Long-term investments	—	782,697	16,015	798,712
Total assets measured at fair value	$ 192,159	$ 1,935,323	$ 16,015	$ 2,143,497

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

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

Financial Assets Not Recorded at Fair Value on a Recurring Basis

The Company's non-marketable equity and cost method investments are not recorded at fair value on a recurring basis. These investments are monitored on a quarterly basis for impairment charges. The investments will only be recorded at fair value when an impairment charge is recognized. During the years ended March 31, 2014 and March 31, 2013, the Company recognized impairment charges of $0.7 million and $0.5 million, respectively, on these investments. These investments are included in other assets on the consolidated balance sheet.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at March 31, 2014 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit and short-term and long-term borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit and long-term borrowings at March 31, 2014 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 6. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was $2.138 billion at March 31, 2014 and $1.639 billion at March 31, 2013 based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as a Level 2 fair value measurement.

8. ACCOUNTS RECEIVABLE

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

	March 31, 2014	March 31, 2013
Trade accounts receivable	$ 243,383	$ 230,469
Other	1,940	2,250
	245,323	232,719
Less allowance for doubtful accounts	2,918	2,764
	$ 242,405	$ 229,955

9. INVENTORIES

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

	March 31, 2014	March 31, 2013
Raw materials	$ 9,734	$ 9,020
Work in process	179,692	181,750
Finished goods	73,299	51,564
	$ 262,725	$ 242,334

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

10. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2014	March 31, 2013
Land	$ 55,624	$ 47,102
Building and building improvements	411,149	396,611
Machinery and equipment	1,465,255	1,377,814
Projects in process	68,991	76,158
	2,001,019	1,897,685
Less accumulated depreciation and amortization	1,469,052	1,383,141
	$ 531,967	$ 514,544

Depreciation expense attributed to property, plant and equipment was $89.7 million, $88.3 million and $86.4 million for the fiscal years ending March 31, 2014, 2013 and 2012, respectively.

11. INTANGIBLE ASSETS AND GOODWILL

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

	March 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount
Developed technology	$ 402,669	$ (117,222)	$ 285,447
Customer-related	195,800	(109,170)	86,630
Trademarks and trade names	15,730	(7,118)	8,612
Backlog	24,610	(24,610)	—
In-process technology	64,396	—	64,396
Distribution rights	5,585	(5,171)	414
Covenants not to compete	400	(400)	—
	$ 709,190	$ (263,691)	$ 445,499

	March 31, 2013		
	Gross Amount	Accumulated Amortization	Net Amount
Developed technology	$ 375,006	$ (69,107)	$ 305,899
Customer-related	194,500	(68,522)	125,978
Trademarks and trade names	15,730	(3,941)	11,789
Backlog	24,610	(17,310)	7,300
In-process technology	78,968	—	78,968
Distribution rights	5,236	(5,101)	135
Covenants not to compete	400	(333)	67
	$ 694,450	$ (164,314)	$ 530,136

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. In fiscal 2014, the Company acquired $12.7 million of developed technology which has a weighted average amortization period of 11 years, $1.3 million of customer-related intangible assets which has a weighted average amortization period of 5 years, $0.3 million of distribution rights which has a weighted average amortization period of 10 years and $0.8 million of in-process technology which will begin amortization once the technology reaches technological feasibility. The following is an expected amortization schedule for the intangible assets for fiscal 2015 through fiscal 2019, absent any future acquisitions or impairment charges (amounts in thousands):

Year ending March 31,	Projected Amortization Expense
2015	$132,951
2016	91,711
2017	61,997
2018	46,724
2019	38,730

Amortization expense attributed to intangible assets was $99.4 million, $115.8 million and $13.0 million for fiscal years 2014, 2013 and 2012, respectively. In fiscal 2014, approximately $4.7 million was charged to cost of sales and approximately $94.7 million was charged to operating expenses. In fiscal 2013, approximately $3.9 million was charged to cost of sales and approximately $111.9 million was charged to operating expenses. In fiscal 2012, $1.4 million was charged to cost of sales and $11.6 million was charged to operating expenses. The Company recognized impairment charges of $0.4 million in fiscal 2014. The Company found no indication of impairment of its intangible assets in fiscal 2013 or 2012.

Goodwill activity for fiscal years 2014 and 2013 was as follows (amounts in thousands):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2012	$ 74,313	$ 19,200
Additions due to the acquisition of SMSC	169,065	—
Additions due to the acquisition of Roving Networks	8,652	—
Additions due to contingent consideration payments	118	—
Balance at March 31, 2013	252,148	19,200
Adjustments due to the acquisition of SMSC	(3,473)	—
Additions due to other acquisitions	8,111	—
Additions due to contingent consideration payments	111	—
Balance at March 31, 2014	$ 256,897	$ 19,200

In fiscal 2014, the Company completed several acquisitions which resulted in goodwill of approximately $8.1 million which was allocated to the semiconductor products reporting unit. Also, during fiscal 2014, the Company made adjustments to the purchase price allocation of its SMSC acquisition of approximately $3.5 million.

In fiscal 2013, the Company acquired SMSC and Roving Networks. The SMSC acquisition resulted in approximately $169.1 million of goodwill which was allocated to the semiconductor products reporting unit. The Roving Networks acquisition resulted in approximately $8.7 million of goodwill which was allocated to the semiconductor products reporting unit.

At March 31, 2014, $256.9 million of goodwill was recorded in the Company's semiconductor products reporting unit and $19.2 million was recorded in the Company's technology licensing reporting unit. At March 31, 2014, the Company applied a qualitative goodwill impairment screen to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through March 31, 2014, the Company has never recorded an impairment charge against its goodwill balance.

12. ACCRUED LIABILITIES

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

	March 31, 2014	March 31, 2013
Acquisition related contingent consideration	$ —	$ 19,100
Other accrued expenses	96,731	108,008
	$ 96,731	$ 127,108

13. INCOME TAXES

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2011 and later tax years remain open for examination by tax authorities. The U.S. Internal Revenue Service (IRS) is currently auditing Microchip and SMSC's 2011 and 2012 tax years. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2006.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. Although the Company believes that it has appropriately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different than expectations. The Company will adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate, the closing of a statutory audit period or changes in applicable tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate, as well as related net interest.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other domestic and international tax jurisdictions based on its estimate of whether, and the extent to which, additional tax payments are more likely than not. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

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

The following table summarizes the activity related to the Company's gross unrecognized tax benefits from April 1, 2011 to March 31, 2014 (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Beginning balance	$ 152,845	$ 70,490	$ 58,125
Increases related to acquisitions	341	45,624	—
Decreases related to settlements with tax authorities	(15,016)	—	—
Decreases related to statute of limitation expirations	(4,069)	(5,751)	(2,153)
Increases related to current year tax positions	14,669	42,328	11,992
Increases related to prior year tax positions	1,108	154	2,526
Ending balance	$ 149,878	$ 152,845	$ 70,490

As of March 31, 2014, the Company had accrued approximately $0.3 million related to the potential payment of interest on the Company's uncertain tax positions. As of March 31, 2013, the Company had accrued approximately $3.2 million related to the potential payment of interest on the Company's uncertain tax positions. Interest was included in the provision for income taxes. The Company has accrued for approximately $29.7 million and $30.6 million in penalties related to its uncertain tax positions related to its international locations as of March 31, 2014 and March 31, 2013, respectively. Interest and penalties charged or (credited) to operations during the years ended March 31, 2014, 2013 and 2012 related to the Company's uncertain tax positions were $0.2 million, $0.8 million and $0.9 million, respectively.

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

	Year Ended March 31,		
	2014	2013	2012
Current expense:			
Federal	$ 992	$ 33,856	$ 7,611
State	64	2,350	544
Foreign	30,697	16,950	21,174
Total current	$ 31,753	53,156	29,329
Deferred expense (benefit):			
Federal	$ 14,445	(16,004)	14,942
State	929	(1,111)	1,067
Foreign	(10,054)	(11,253)	(2,348)
Total deferred	5,320	(28,368)	13,661
	$ 37,073	$ 24,788	$ 42,990

The tax benefit associated with the Company's equity incentive plans reduced taxes currently payable by $1.4 million and $11.0 million for the years ended March 31, 2014 and 2012, respectively. These amounts were credited to additional paid-in capital in each of these fiscal years. There was no tax benefit associated with the Company's equity incentive plans for the year ended March 31, 2013.

The provision for income taxes differs from the amount computed by applying the statutory federal tax rate to income before income taxes. The sources and tax effects of the differences in the total income tax provision are as follows (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Computed expected income tax provision	$ 151,324	$ 53,262	$ 132,894
State income taxes, net of federal benefits	686	(2,054)	1,280
Research and development tax credits - current year	(4,875)	(8,263)	(3,750)
Research and development tax credits - prior years	1,600	(3,347)	(5,894)
Foreign income taxed at lower than the federal rate	(116,003)	(61,377)	(97,169)
Increases related to current and prior year tax positions	16,809	44,661	14,518
Decreases related to prior year tax positions [(1)]	(14,581)	(7,154)	(2,153)
Withholding taxes	6,212	7,267	6,995
Other	(4,099)	1,793	(3,731)
	$ 37,073	$ 24,788	$ 42,990

[(1)] The release of prior year tax positions during fiscal 2014 increased each of the current year basic and diluted net income per common share by $0.07. The release of prior year tax positions during fiscal 2013 increased the current year basic and diluted net income per common share by $0.04 and $0.03, respectively. The release of prior year tax positions during fiscal 2012 increased each of the current year basic and diluted net income per common share by $0.01.

Pretax income from foreign operations was $404.1 million, $234.3 million and $328.5 million for the years ended March 31, 2014, 2013 and 2012, respectively. Unremitted foreign earnings that are considered to be permanently invested outside the U.S., and on which no deferred taxes have been provided, amounted to approximately $2.4 billion at March 31, 2014. The Company has the ability and intent to indefinitely reinvest its foreign earnings. Should the Company elect in the future to repatriate a portion of the foreign earnings so invested, the Company would incur income tax expense on such repatriation, net of any available deductions and foreign tax credits. This would result in additional income tax expense beyond the computed effective tax rate in such periods.

During the year ended March 31, 2014, the Company settled an IRS examination of fiscal years 2009 and 2010. In addition, the Company benefited from the expiration of the statute of limitations and other releases related to previously accrued tax reserves. The total tax benefit associated with these items resulted in a reduction of income tax provision of approximately $14.6 million and a decrease in the effective tax rate of 3.4%.

In January 2013, the U.S. Congress retroactively reinstated the research and development tax credit from January 1, 2012. As a result, the Company recognized a one-time tax benefit of $8.1 million in the year ended March 31, 2013 related to the reinstatement of the credit for calendar year 2012.

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

	March 31,	
	2014	2013
Deferred tax assets:		
Deferred intercompany profit	$ 9,623	$ 13,679
Deferred income on shipments to distributors	28,596	28,776
Inventory valuation	6,072	9,148
Net operating loss carryforward	110,598	77,959
Share-based compensation	24,494	27,757
Income tax credits	124,395	112,686
Accrued expenses and other	28,227	17,241
Gross deferred tax assets	332,005	287,246
Valuation allowances	(93,811)	(88,637)
Deferred tax assets, net of valuation allowances	238,194	198,609
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation	(1,942)	(8,515)
Junior convertible debentures	(530,338)	(486,878)
Other	(13,740)	(10,779)
Deferred tax liabilities	(546,020)	(506,172)
Net deferred tax liability	$ (307,826)	$ (307,563)
Reported as:		
Current deferred tax assets	$ 67,490	$ 80,687
Non-current deferred tax liability	(375,316)	(388,250)
Net deferred tax liability	$ (307,826)	$ (307,563)

In addition to the deferred tax assets listed above, the Company has unrecorded tax benefits of $29.8 million attributable to the difference between the amount of the financial statement expense and the allowable tax deduction associated with share-based compensation. As a result of net operating loss (NOL) carryforwards, the Company was not able to recognize the excess tax benefits of share-based compensation deductions because the deductions did not reduce income tax payable. Although not recognized for financial reporting purposes, this unrecorded tax benefit is available to reduce future income and is incorporated into the disclosed amounts of the Company's federal and state NOL carryforwards, discussed below. If subsequently realized, the benefit will be recorded to contributed capital.

The Company had federal, state and foreign NOL carryforwards with an estimated tax effect of $110.6 million available at March 31, 2014. The federal and state NOL carryforwards expire at various times between 2015 and 2034. The Company believes that it is more likely than not that the benefit from certain foreign and state NOL carryforwards will not be realized. In recognition of this risk, at March 31, 2014, the Company has provided a valuation allowance of $20.5 million. The Company also has state tax credits with an estimated tax effect of $54.3 million available at March 31, 2014. These state tax credits expire at various times between 2015 and 2034. The Company believes that it is more likely than not that the full benefit from these state tax credits will not be realized, and therefore has provided a valuation allowance of $51.4 million. The Company has U.S foreign tax credits with an estimated tax effect of $21.9 million that expire at various times between 2015 and 2024. The Company believes it is more likely than not that the benefit from these credits will not be fully realized and has provided a valuation allowance of $21.8 million. At March 31, 2014, the Company had credits for increasing research activity in the amount of $44.4 million that expire at various times between 2021 and 2034. In addition, the Company had $3.7 million of alternative minimum tax credits that do not expire. At March 31, 2014, the Company had alternative minimum tax NOL carryforwards of approximately $308.0 million that expire between 2032 and 2034.

The Company's Thailand manufacturing operations currently benefit from numerous tax holidays granted to the Company based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future, however, the Company actively seeks to acquire new tax holidays. The Company does not expect the future expiration of any of its tax holiday periods in Thailand to have a material impact on its effective tax rate. The aggregate dollar benefits derived from these tax holidays approximated $16.8 million, $12.0 million and $6.5 million in fiscal 2014, 2013 and 2012, respectively. The benefit the tax holiday had on diluted net income per share approximated $0.08 in fiscal 2014, $0.06 in fiscal 2013 and $0.03 in fiscal 2012.

On September 13, 2013, the IRS and the Treasury Department released final regulations under Section 162(a) and 263(a) on the deduction and capitalization of expenditures related to tangible property. The new regulations apply to tax years beginning on or after January 1, 2014; therefore they had no material impact on fiscal 2014. The Company believes that no material impact will result from these new regulations (specifically given the Company's NOL position), but the Company is in the process of evaluating the full impact of these changes.

14. 2.125% JUNIOR SUBORDINATED CONVERTIBLE DEBENTURES

The Company's $1.15 billion principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company's subsidiaries. The debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion rate of 29.2783 shares of common stock per $1,000 principal amount of debentures, representing an initial conversion price of approximately $34.16 per share of common stock. As of March 31, 2014, the holders of the debentures have the right to convert their debentures between April 1, 2014 and June 30, 2014 because for at least 20 trading days during the 30 consecutive trading day period ending on March 31, 2014, the Company's common stock had a last reported sale price greater than 130% of the conversion price. As of March 31, 2014, a holder could realize more economic value by selling its debentures in the over the counter market than from converting its debentures. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 38.6588 shares of common stock per $1,000 of principal amount of debentures, representing a conversion price of approximately $25.87 per share of common stock. The debentures include a contingent interest mechanism that begins in December 2017. The terms of the contingent interest include a 0.25% interest rate if the debentures are trading at less than $40 and 0.5% if the debentures are trading at greater than $150. Based on the current trading price of the debentures the contingent interest rate in calendar year 2017 would be 0.5%.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are both initially recorded at fair value. The carrying value of the equity component at March 31, 2014 and at March 31, 2013 was $822.4 million. The estimated fair value of the liability component of the debentures at the issuance date was $327.6 million, resulting in a debt discount of $822.4 million. The unamortized debt discount was $777.2 million at March 31, 2014 and $786.2 million at March 31, 2013. The carrying value of the debentures was $371.9 million at March 31, 2014 and $363.4 million at March 31, 2013. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 23.75 years. In the years ended March 31, 2014, 2013 and 2012 the Company recognized $9.0 million, $8.2 million and $7.5 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized $24.4 million of interest expense related to the 2.125% coupon on the debentures in each of fiscal 2014, fiscal 2013 and fiscal 2012.

15. CREDIT FACILITY

On June 27, 2013, the Company entered into a $2.0 billion credit agreement among the Company, the lenders from time to time that are parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement). The Credit Agreement provides for a $350 million term loan and a $1.65 billion revolving credit facility, with a $125 million foreign currency sublimit, a $35 million letter of credit sublimit and a $25 million swingline loan sublimit, terminating on June 27, 2018 (the Maturity Date). The Credit Agreement also contains an increase option permitting the Company, subject to certain requirements, to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of $300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the Credit Agreement may be used for working capital and general corporate purposes. The Credit Agreement replaced another credit agreement the Company had in place since August 2011. At March 31, 2014, $650.0 million of borrowings were outstanding under the Credit Agreement consisting of $300 million of a revolving line of credit and $350 million of a term loan, net of $1.1 million of debt discount resulting from amounts paid to the lenders. The repayment schedule for the term loan portion of the Credit Agreement outstanding at March 31, 2014 is as follows (amounts in thousands):

Year Ending March 31,	Amount
2015	$ 17,500
2016	17,500
2017	35,000
2018	35,000
2019	245,000
Total	$ 350,000

The loans under the Credit Agreement bear interest, at the Company's option, at the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate (based on one, two, three, or six-month interest periods) plus a spread of 1.25% to 2.25%, in each case with such spread being determined based on the consolidated leverage ratio for the preceding four fiscal quarter period. The base rate means the highest of JPMorgan Chase Bank, N.A.'s prime rate, the federal funds rate plus a margin equal to 0.50% and the adjusted LIBOR rate for a 1-month interest period plus a margin equal to 1.00%. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. Base rate loans may only be made in U.S. Dollars. The Company is also obligated to pay other administration fees and letter of credit fees for a credit facility of this size and type.

Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Interest expense related to the Credit Agreement was approximately $14.6 million in fiscal 2014. Interest expense related to the Company's prior credit agreement was approximately $7.0 million in fiscal 2013 and approximately $3.3 million in fiscal 2012. Principal, together with all accrued and unpaid interest, is due and payable on the Maturity Date. The weighted average interest rate on short-term borrowings outstanding at March 31, 2014 related to the credit agreement was 1.65%. The Company also pays a quarterly commitment fee on the available but unused portion of its line of credit which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

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

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. At March 31, 2014, the Company was in compliance with these covenants.

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

16. CONTINGENCIES

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

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately $129 million. There are some licensing agreements in place that do not specify indemnification limits. The Company had not recorded any liabilities related to these indemnification obligations as of March 31, 2014.

Contingent liabilities in the amount of $13.0 million were recorded in connection with the Company's April 8, 2010 acquisition of Silicon Storage Technology Inc. (SST) as an adverse outcome was determined to be probable and estimable. One of the contingent liabilities associated with the SST acquisition was resolved in fiscal 2013 with legal settlement costs of approximately $11.5 million in excess of previously accrued amounts, which were expensed as special charges in the statement of income. At March 31, 2014, $5.7 million of the original contingent liabilities recorded were still outstanding.

17. STOCK REPURCHASE ACTIVITY

On December 11, 2007, the Company announced that its Board of Directors had authorized the repurchase of up to 10.0 million shares of its common stock in the open market or in privately negotiated transactions. As of March 31, 2014, the Company had repurchased 7.5 million shares under this authorization for $234.7 million. There is no expiration date associated with this program.

During the years ended March 31, 2014, 2013 and 2012, the Company did not purchase any of its shares of common stock.

18. EMPLOYEE BENEFIT PLANS

The Company maintains a contributory profit-sharing plan for its domestic employees meeting certain eligibility and service requirements. The plan qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended, and allows employees to contribute up to 60% of their base salary, subject to maximum annual limitations prescribed by the IRS. The Company has a discretionary matching contribution program. All matches are provided on a quarterly basis and require the participant to be an active employee at the end of each quarter. For fiscal 2014, the Company contributions to the plan totaled $3.6 million. For fiscal 2013, the Company contributions to the plan totaled $0.8 million. For fiscal 2012, the Company contributions to the plan totaled $1.6 million.

The Company's 2001 Employee Stock Purchase Plan (the 2001 Purchase Plan) became effective on March 1, 2002. The Board of Directors approved the 2001 Purchase Plan in May 2001 and the stockholders approved it in August 2001. Under the 2001 Purchase Plan, eligible employees of the Company may purchase shares of common stock at semi-annual intervals through periodic payroll deductions. The purchase price in general will be 85% of the lower of the fair market value of the common stock on the first day of the participant's entry date into the offering period or of the fair market value on the semi-annual purchase date. Depending upon a participant's entry date into the 2001 Purchase Plan, purchase periods under the 2001 Purchase Plan consist of overlapping periods of either 24, 18, 12 or 6 months in duration. In May 2003 and August 2003, the Company's Board and stockholders, respectively, each approved an annual automatic increase in the number of shares reserved under the 2001 Purchase Plan. The automatic increase took effect on January 1, 2005, and on each January 1 thereafter during the term of the plan, and is equal to the lesser of (i) 1,500,000, (ii) one half of one percent (0.5%) of the then outstanding shares of the Company's common stock, or (iii) such lesser amount as is approved by Board of Directors. Upon the approval of the Board of Directors, there were no shares added under the 2001 Purchase Plan on January 1, 2014 or January 1, 2013 based on the automatic increase provision. On January 1, 2012, an additional 960,269 shares were reserved under the 2001 Purchase

Plan based on the automatic increase. Since the inception of the 2001 Purchase Plan, 11,277,862 shares of common stock have been reserved for issuance and 5,641,704 shares have been issued under this purchase plan.

During fiscal 1995, a purchase plan was adopted for employees in non-U.S. locations. Such plan provided for the purchase price per share to be 100% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. Effective May 1, 2006, the Company's Board approved a purchase price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. Since the inception of this purchase plan, 1,500,285 shares of common stock have been reserved for issuance and 830,277 shares have been issued under this purchase plan.

Effective January 1, 1997, the Company adopted a non-qualified deferred compensation arrangement. This plan is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of highly compensated employees as defined in ERISA Sections 201, 301 and 401. There are no Company matching contributions made under this plan.

In connection with the acquisition of SMSC, the Company assumed an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides former SMSC senior management with retirement, disability and death benefits. An amendment to the SERP was executed on November 3, 2009, freezing the benefit level for existing participants as of February 28, 2010 and closing the SERP to new participants. As of March 31, 2014, the projected benefit obligation is $6.3 million. Annual benefit payments and contributions under this plan are expected to be approximately $0.8 million in fiscal 2015 and approximately $4.5 million cumulatively in fiscal 2016 through fiscal 2024.

The Company has management incentive compensation plans which provide for bonus payments, based on a percentage of base salary, from an incentive pool created from operating profits of the Company, at the discretion of the Board of Directors. During fiscal 2014, 2013 and 2012, $24.4 million, $12.0 million and $7.8 million were charged against operations for these plans, respectively.

The Company also has a plan that, at the discretion of the Board of Directors, provides a cash bonus to all employees of the Company based on the operating profits of the Company. During fiscal 2014, 2013 and 2012, $15.2 million, $4.3 million and $3.2 million, respectively, were charged against operations for this plan.

19. EQUITY INCENTIVE PLANS

Share-Based Compensation Expense

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

	Year Ended March 31,		
	2014	2013	2012
Cost of sales	$ 7,340 [1]	$ 8,234 [1]	$ 5,648 [1]
Research and development	24,554	22,178	14,719
Selling, general and administrative	21,893	27,603	17,922
Pre-tax effect of share-based compensation	53,787	58,015	38,289
Income tax benefit	5,722	9,038	4,889
Net income effect of share-based compensation	$ 48,065	$ 48,977	$ 33,400

[1] During the year ended March 31, 2014, $7.4 million of share-based compensation expense was capitalized to inventory, and $7.3 million of previously capitalized share-based compensation expenses in inventory was sold. During the year ended March 31, 2013, $5.9 million of share-based compensation expense was capitalized to inventory, and $8.2 million of previously capitalized share-based compensation expense in inventory was sold. During the year ended March 31, 2012, $6.6 million of share-based compensation expense was capitalized to inventory, and $5.6 million of previously capitalized share-based compensation expense in inventory was sold.

The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2015 through fiscal 2019 related to unvested share-based payment awards at March 31, 2014 is $83.5 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 2.01 years.

SMSC Acquisition-related Equity Awards

In connection with the acquisition of SMSC in fiscal 2013, the Company recognized $7.8 million in share-based compensation expense due to the accelerated vesting of outstanding equity awards upon termination of certain SMSC executive officers. Also, in connection with the acquisition of SMSC, the Company assumed certain unvested stock options, stock appreciation rights (SARs) and RSUs granted by SMSC. The assumed awards were measured at the acquisition date based on the estimated fair value, which was a total of $28.2 million. The Hull White II lattice model was used to value the assumed awards. A portion of that fair value, $6.9 million, which represented the preacquisition vested service provided by employees to SMSC, was included in the total consideration transferred as part of the acquisition. As of the acquisition date, the remaining portion of the fair value of those awards was $21.3 million, representing post-acquisition stock-based compensation expense that would be recognized as these employees provide service over the remaining vesting periods.

Combined Incentive Plan Information

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

	Number of Shares
Nonvested shares at April 1, 2011	5,241,306
Granted	1,627,191
Forfeited/expired	(184,926)
Vested	(1,191,351)
Nonvested shares at March 31, 2012	5,492,220
Granted	1,976,583
Assumed upon acquisition	523,043
Forfeited/expired	(370,196)
Vested	(1,611,819)
Nonvested shares at March 31, 2013	6,009,831
Granted	1,616,632
Forfeited/expired	(282,964)
Vested	(1,813,465)
Nonvested shares at March 31, 2014	5,530,034

The total intrinsic value of RSUs which vested during the years ended March 31, 2014, 2013 and 2012 was $74.6 million, $54.4 million and $43.7 million, respectively. The aggregate intrinsic value of RSUs outstanding at March 31, 2014 was $264.1 million, calculated based on the closing price of the Company's common stock of $47.76 per share on March 31, 2014. At March 31, 2014, the weighted average remaining expense recognition period was 2.07 years.

The weighted average fair value per share of the RSUs awarded is calculated based on the fair market value of the Company's common stock on the respective grant dates discounted for the Company's expected dividend yield. The weighted average fair value per share of RSUs awarded in fiscal 2014, 2013 and 2012 was $34.24, $29.92 and $30.48, respectively.

Stock option and SAR activity under the Company's stock incentive plans in the three years ended March 31, 2014 is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at April 1, 2011	5,496,924	$ 25.21
Granted	—	—
Exercised	(2,129,260)	25.53
Canceled	(6,667)	25.05
Outstanding at March 31, 2012	3,360,997	25.00
Granted	—	—
Assumed upon acquisition	827,707	19.32
Exercised	(1,638,548)	22.19
Canceled	(280,353)	19.90
Outstanding at March 31, 2013	2,269,803	25.58
Granted	—	—
Exercised	(1,675,663)	25.91
Canceled	(20,529)	22.78
Outstanding at March 31, 2014	573,611	$ 24.75

The total intrinsic value of options and SARs exercised during the years ended March 31, 2014, 2013 and 2012 was $25.5 million, $19.0 million and $26.7 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each equity award.

The aggregate intrinsic value of options and SARs outstanding at March 31, 2014 was $13.2 million. The aggregate intrinsic value of options and SARS exercisable at March 31, 2014 was $12.4 million. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of $47.76 per share on March 31, 2014.

As of March 31, 2014 and 2013, the number of option and SARs shares exercisable was 543,435 and 1,922,644, respectively, and the weighted average exercise price per share was $25.03 and $26.77, respectively.

20. COMMITMENTS

The Company leases office space, transportation and other equipment under operating leases which expire at various dates through March 31, 2020. The future minimum lease commitments under these operating leases at March 31, 2014 were as follows (amounts in thousands):

Year Ending March 31,	Amount
2015	$ 12,415
2016	11,498
2017	8,550
2018	6,076
2019	3,326
Thereafter	399
Total minimum payments	$ 42,264

Rental expense under operating leases totaled $21.5 million, $20.3 million and $15.1 million for fiscal 2014, 2013 and 2012, respectively.

Commitments for construction or purchase of property, plant and equipment totaled $42.8 million as of March 31, 2014, all of which will be due within the next year. Other purchase obligations and commitments totaled approximately $32.7 million as of March 31, 2014. Other purchase obligations and commitments include payments due under various types of licenses and approximately $31.6 million of outstanding purchase commitments with the Company's wafer foundries for delivery in fiscal 2015.

21. GEOGRAPHIC AND SEGMENT INFORMATION

The Company's reporting segments include semiconductor products and technology licensing. The Company does not allocate operating expenses, interest income, interest expense, other income or expense, or provision for or benefit from income taxes to these segments for internal reporting purposes, as the Company does not believe that allocating these expenses is beneficial in evaluating segment performance. Additionally, the Company does not allocate assets to segments for internal reporting purposes as it does not manage its segments by such metrics.

The following table represents revenues and gross profit for each segment (amounts in thousands):

	Years ended March 31,					
	2014		2013		2012	
	Net Sales	Gross Profit	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$ 1,836,639	$ 1,034,165	$ 1,497,820	$ 754,656	$ 1,296,175	$ 712,798
Technology licensing	94,578	94,578	83,803	83,803	87,001	86,496
	$ 1,931,217	$ 1,128,743	$ 1,581,623	$ 838,459	$ 1,383,176	$ 799,294

The Company sells its products to distributors and original equipment manufacturers (OEMs) in a broad range of market segments, performs on-going credit evaluations of its customers and, as deemed necessary, may require collateral, primarily letters of credit. The Company's operations outside the U.S. consist of product assembly and final test facilities in Thailand, and sales and support centers and design centers in certain foreign countries. Domestic operations are responsible for the design, development and wafer fabrication of products, as well as the coordination of production planning and shipping to meet worldwide customer commitments. The Company's Thailand assembly and test facility is reimbursed in relation to value added with respect to assembly and test operations and other functions performed, and certain foreign sales offices receive compensation for sales within their territory. Accordingly, for financial statement purposes, it is not meaningful to segregate sales or operating profits for the assembly and test and foreign sales office operations. Identifiable long-lived assets (consisting of property, plant and equipment net of accumulated amortization) by geographic area are as follows (amounts in thousands):

	March 31,	
	2014	2013
United States	$ 311,926	$ 325,326
Thailand	179,139	171,100
Various other countries	40,902	18,118
Total long-lived assets	$ 531,967	$ 514,544

Sales to unaffiliated customers located outside the U.S., primarily in Asia and Europe, aggregated approximately 84%, 83% and 82% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales to customers in Europe represented 21%, 22% and 23% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales to customers in Asia represented 60%, 58% and 56% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Within Asia, sales into China, including Hong Kong, represented 29%, 27% and 24% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales into Taiwan represented 13% of consolidated net sales in each of fiscal 2014 and 2013. Sales into Taiwan represented 15% of consolidated net sales for fiscal 2012. Sales into any other individual foreign country did not exceed 10% of the Company's net sales for any of the years presented.

No single end customer accounted for 10% or more of the Company's net sales during fiscal 2014, 2013 or 2012. Future Electronics, one of the Company's distributors, accounted for approximately 10% of the Company's net sales in fiscal 2012. These net sales are reported in the semiconductor products segment. No other distributor accounted for 10% or more of the Company's net sales in fiscal 2014 or fiscal 2013.

22. DERIVATIVE INSTRUMENTS

The Company has international operations and is thus subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Approximately 99% of the Company's sales are U.S. Dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company's operating results. As of March 31, 2014, the Company had no foreign currency forward contracts outstanding. As of March 31, 2013, the Company had a foreign currency forward contract outstanding with a notional amount of $6.0 million to economically hedge certain balance sheet exposures related to the Japanese yen. The fair value of this contract was immaterial as of March 31, 2013. The Company recognized an immaterial amount of net realized gains and losses on foreign currency forward contracts in the years ended March 31, 2014, 2013 and 2012. Gains and losses from changes in the fair value of these foreign currency forward contracts are credited or charged to Other Income (Expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

23. NET INCOME PER COMMON SHARE

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

	Year ended March 31,		
	2014	2013	2012
Net income	$ 395,281	$ 127,389	$ 336,705
Weighted average common shares outstanding	198,291	194,595	191,283
Dilutive effect of stock options and RSUs	3,910	3,650	4,207
Dilutive effect of convertible debt	15,429	7,531	8,029
Weighted average common and potential common shares outstanding	217,630	205,776	203,519
Basic net income per common share	$ 1.99	$ 0.65	$ 1.76
Diluted net income per common share	$ 1.82	$ 0.62	$ 1.65

Diluted net income per common share for fiscal 2014, 2013, and 2012 includes 15,429,003, 7,531,111 and 8,029,255 shares, respectively, issuable upon the exchange of debentures (see Note 14). The debentures have no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for fiscal 2014, 2013 and 2012 was $26.32, $27.36 and $28.50, respectively.

Weighted average common shares exclude the effect of option shares which are not dilutive. There were no antidilutive option shares for fiscal 2014. For fiscal 2013 and 2012, the number of option shares that were antidilutive was 98,068 and 53,374, respectively.

24. QUARTERLY RESULTS (UNAUDITED)

The following table presents the Company's selected unaudited quarterly operating results for the eight quarters ended March 31, 2014. The Company believes that all adjustments of a normal recurring nature have been made to present fairly the related quarterly results (in thousands, except per share amounts):

Fiscal 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 462,792	$ 492,669	$ 482,372	$ 493,384	$ 1,931,217
Gross profit	266,574	288,863	282,720	290,586	1,128,743
Operating income	98,401	117,508	116,918	126,037	458,864
Net income	78,579	99,806	105,401	111,495	395,281
Diluted net income per common share	0.37	0.46	0.48	0.50	1.82

Fiscal 2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 352,134	$ 383,298	$ 416,047	$ 430,144	$ 1,581,623
Gross profit	204,797	194,195	200,428	239,039	838,459
Operating income	96,333	8,094	17,413	56,713	178,553
Net income (loss)	78,710	(21,184)	10,173	59,690	127,389
Diluted net income (loss) per common share	0.39	(0.10)	0.05	0.28	0.62

Refer to Note 4, Special Charges, for an explanation of the special charges included in operating income in fiscal 2014 and fiscal 2013.

25. SUPPLEMENTAL FINANCIAL INFORMATION

Cash paid for income taxes amounted to $25.7 million, $21.4 million and $20.1 million during fiscal 2014, 2013 and 2012, respectively. Cash paid for interest on borrowings amounted to $34.6 million in fiscal 2014, $28.8 million in fiscal 2013 and $24.4 million in fiscal 2012.

A summary of additions and deductions related to the allowance for doubtful accounts for the years ended March 31, 2014, 2013 and 2012 follows (amounts in thousands):

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions [1]	Balance at End of Year
Allowance for doubtful accounts:				
2014	$ 2,764	$ 245	$ (91)	$ 2,918
2013	2,602	516	(354)	2,764
2012	2,838	7	(243)	2,602

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

The following table presents the changes in the components of accumulated other comprehensive income (AOCI) for the years ended March 31, 2014 and March 31, 2013:

Year ended March 31, 2014	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2013	$ 5,444	$ 52	$ 1,439	$ 6,935
Other comprehensive (loss) income before reclassifications	(4,377)	88	—	(4,289)
Amounts reclassified from accumulated other comprehensive (loss) income	(1,595)	—	—	(1,595)
Net other comprehensive (loss) income	(5,972)	88	—	(5,884)
Balance at March 31, 2014	$ (528)	$ 140	$ 1,439	$ 1,051

Year ended March 31, 2013	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2012	$ 3,101	$ —	$ —	$ 3,101
Other comprehensive income before reclassifications	2,686	52	1,439	4,177
Amounts reclassified from accumulated other comprehensive income	(343)	—	—	(343)
Net other comprehensive income	2,343	52	1,439	3,834
Balance at March 31, 2013	$ 5,444	$ 52	$ 1,439	$ 6,935

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

	Year ended March 31,			
Description of AOCI Component	2014	2013	2012	Related Statement of Income Line
Unrealized gains on available-for-sale securities	$ 2,371	$ 394	$ 157	Other income
Taxes	(776)	(51)	58	(Provision) benefit for income taxes
Reclassification of realized transactions, net of taxes	$ 1,595	$ 343	$ 215	Net Income

26. DIVIDENDS

On October 28, 2002, the Company announced that its Board of Directors had approved and instituted a quarterly cash dividend on its common stock. The Company has continued to pay quarterly dividends and has increased the amount of such dividends on a regular basis. Cash dividends paid per share were $1.417, $1.406 and $1.390 during fiscal 2014, 2013 and 2012, respectively. Total dividend payments amounted to $281.2 million , $273.8 million and $266.2 million during fiscal 2014, 2013 and 2012, respectively.

27. SUBSEQUENT EVENTS

Completion of Acquisition of Supertex Inc.

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

Announcement of Signing of Definitive Agreement to Acquire ISSC

On May 22, 2014, the Company announced a definitive agreement to acquire ISSC Technologies Corporation (ISSC), a leading provider of low power Bluetooth and advanced wireless solutions for the Internet Of Things (IoT) market. ISSC is publicly traded on the GreTai Securities Market and is headquartered in Hsinchu, Taiwan with sales or research subsidiaries in Shenzhen, China and Torrance, California. Under the terms of the transaction, the Company will commence a tender offer through its indirect wholly owned Cayman Island subsidiary (the "Cayman Subsidiary") to acquire all of the outstanding shares of ISSC for approximately $4.74 per share ($143 New Taiwan (NT) dollars per share, based on an assumed exchange rate of NT$30.15 per U.S. dollar) in cash, and acquire any remaining shares pursuant to a follow-on merger at approximately $4.74 per share minus any dividends paid by ISSC prior to the close of the transaction. The transaction represents a total equity value of about $328.5 million (approximately NT$9.9 billion), and a total enterprise value of about $294.3 million (approximately NT$8.9 billion), after excluding ISSC’s cash and investments on its balance sheet of approximately $34.2 million (approximately NT$1.0 billion). Upon completion of the tender offer through the Cayman Subsidiary, the Company will own the majority of the outstanding shares of ISSC and will consolidate ISSC’s financial statements.

EXHIBIT 2.1

AGREEMENT AND PLAN OF MERGER

between

Microchip Technology (Barbados) II Incorporated

and

ISSC Technologies Corp.

Dated as of May 22, 2014

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of May 22, 2014, is being entered into by and between Microchip Technology (Barbados) II Incorporated, an exempted company incorporated with limited liability with company number 250343 and in existence under the laws of the Cayman Islands with its registered office at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, and having a branch office in the Republic of China (the "**ROC**") at 30F-1, No.8, Min-Chuan 2nd Road, Kaohsiung, 80661, ROC ("**Merger Sub**") and ISSC Technologies Corp., a company incorporated and in existence under the laws of the ROC with a principal place of business at 5F., No.5, Industry East 7th Road, Hsinchu Science Park, Hsinchu City 30077, ROC (the "**Company**").

RECITALS

WHEREAS, Merger Sub is an indirect subsidiary of Microchip Technology Incorporated, a company incorporated and in existence under the laws of state of Delaware ("**Parent**"), with a principal place of business at 2355 West Chandler Blvd., Chandler, Arizona, USA;

WHEREAS, it is proposed that Merger Sub will commence a public tender offer pursuant to applicable laws and regulations of the ROC to purchase all of the issued and outstanding shares of common stock of the Company ("**Shares**"), for the Merger Consideration (as defined in Section 4.1(a) hereof) ("**Offer**");

WHEREAS, it is also proposed that, following the Offer, Merger Sub will merge with the Company, with Merger Sub as the surviving corporation, on the terms and subject to the conditions set forth herein (the "**Merger**");

WHEREAS, the Board of Directors of Merger Sub has approved this Agreement and declared it advisable for Merger Sub and the Company to enter into this Agreement;

WHEREAS, the Board of Directors of the Company (the "**Company Board**") has (i) determined that it is in the best interests of the Company and its shareholders, and declared it advisable, to enter into this Agreement (the "**Company Board Determination**"), and (ii) approved the execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby, subject to the approval of the shareholders' meeting of the Company and the required regulatory approvals;

WHEREAS, it is the understanding between the parties hereto that to induce the Company to enter into this Agreement, the Parent has agreed to guarantee the performance of the obligations of Merger Sub under this Agreement by executing a guarantee letter as of the date hereof; and

WHEREAS, Merger Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe certain conditions to the Merger as specified herein.

AGREEMENT

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, Merger Sub and the Company hereby agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

For all purposes of and under this Agreement, the following capitalized terms shall have the following respective meanings:

"**Acquired Companies**" means the Company and its Subsidiaries, collectively, and "**Acquired Company**" means any of them.

"**Acquisition Proposal**" means any offer or proposal (other than an offer or proposal by Merger Sub) relating to any Acquisition Transaction.

"**Acquisition Trans**

" means any transaction or series of related transactions (other than the transactions contemplated by this Agreement) involving any (i) merger, consolidation, share exchange, other business combination or similar transaction involving the Company or any of its Subsidiaries, (ii) sale, lease, contribution or other disposition, directly or indirectly (including by way of merger, consolidation, share exchange, other business combination, partnership, joint venture, sale of capital stock of or other equity interests in a Subsidiary of the Company or otherwise) of any business or assets of the Company or any of its Subsidiaries representing 10% or more of the consolidated revenues, net income or assets of the Company and its Subsidiaries, taken as a whole, (iii) issuance, sale or other disposition, directly or indirectly, to any Person (or the stockholders of any Person) or group of securities (or options, rights or warrants to purchase, or securities convertible into or exchangeable for, such securities) representing 10% or more of the voting power of the Company, (iv) transaction in which any Person (or the stockholders of any Person) shall acquire, directly or indirectly, beneficial ownership, or the right to acquire beneficial ownership, or formation of any group which beneficially owns or has the right to acquire beneficial ownership of, 10% or more of the Shares or (v) any combination of the foregoing (in each case, other than the Offer and the Merger).

"**Affiliate**" of any Person means any other Person that, at the time of determination, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such first Person.

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which banks in the United States or the ROC or the GreTai Securities Market are authorized by Law or executed order to be closed.

"**Company Business**" means the business of the Acquired Companies as currently conducted by the Acquired Companies.

"**Company Data**" means all right, title and interest in and to the data contained in any databases owned and used by the Acquired Companies (including any and all Trade Secrets and User Data) and all other information and data compilations owned and used by, the Acquired Companies.

"**Company IP**" means (a) all Intellectual Property that is used or held for use by the Acquired Companies, or in which the Acquired Companies have (or purport to have) an ownership interest, and (b) all Intellectual Property Rights that are owned by, or licensed to the Acquired Companies, or claim or cover or are otherwise embodied in the Intellectual Property described in the foregoing clause (a), in the Company Data, in any Company Website or in any Company Product.

"**Company IP Contract**" means any Contract to which any of the Acquired Companies is a party or by which any of the Acquired Companies is bound, that contains any assignment or license of, or any covenant not to assert or enforce, any Intellectual Property or that otherwise relates to any Company IP or any Intellectual Property developed by, with or for the Acquired Companies (it being understood that licenses to Open Source Code to which the Acquired Companies are or were a party or by which the Acquired Companies are or were bound shall constitute Company IP Contracts).

"**Company IT Systems**" means all information technology and computer systems (including Computer Software, information technology and telecommunication hardware and other equipment) relating to the transmission, storage, maintenance, organization, presentation, generation, processing or analysis of data and information whether or not in electronic format, owned by or licensed to the Acquired Companies, and used in the conduct of the Company Business.

"**Company Plan**" means any "employee benefit plan" other than any mandatory benefit plan as required by applicable Laws, including any stock purchase, stock option, severance, retirement, change-in-control, fringe benefit, bonus, incentive, deferred compensation, employment or other material employee benefit plan, agreement, program, policy or other arrangement, whether formal or informal, written, legally binding or not, under which any current or former employee or director of the Company or any of its Subsidiaries has any present or future right to benefits or the Company or any of its Subsidiaries has had or has any current or future liability to or on behalf of any current or former employee, officer or director of the Company or any of its Subsidiaries (including an obligation to make contributions).

"**Company Products**" means any and all items, products and services marketed, sold, licensed, provided or distributed by Company and its Subsidiaries, and refers also to (i) all explanatory and informational materials concerning the Company Products and related technical documentation and (ii) all prior, present and future versions thereof (which includes works under development as of the date hereof and that the Company expects or intends to make available commercially after the date hereof).

"**Company Software**" means any Computer Software owned, developed (or currently being developed) by or for the Acquired Companies as part of or incorporated into any Company Product, or otherwise used in the operation of the Company Business.

"**Company Website**" means any public or private web site (whether an internet or intranet site), including all subpages thereof, owned, maintained, or operated by or on behalf of the Acquired Companies.

"**Computer Software**" means computer software, data files, source and object codes (including firmware), tools, user interfaces, systems architecture, developer kits, manuals and other specifications and documentation and all know-how and Trade Secrets embodied therein.

"**Contract**" means any contract, subcontract, agreement, commitment, note, bond, mortgage, indenture, lease, license, sublicense, permit, franchise or other instrument, obligation or binding arrangement or understanding of any kind or character, whether oral or in writing.

"**control**" (including the terms "controlled," "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise.

"**Environmental Laws**" means all Laws of the ROC or of the jurisdiction where the Subsidiary is incorporated protecting the quality of the ambient air, soil, surface water or groundwater, or indoor air, in effect as of the date of this Agreement and any common law related to such.

"**Environmental Permits**" means all permits, licenses, registrations and other authorizations currently required under applicable Environmental Laws.

"**GAAP**" means generally accepted accounting principles, as applied to the Company in the ROC, including International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations thereof, each as endorsed by the FSC pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers (證券發行人財務報告編製準則).

"**Governmental Authority**" means any federal, state, provincial, county or local governmental, regulatory or administrative authority, agency or commission or any judicial or arbitral body in the ROC or otherwise.

"**Intellectual Property**" or "**Intellectual Property Rights**" means any or all of the following and all statutory and/or common law rights throughout the world in, arising out of, or associated therewith: (i) all ROC, United States and foreign patents and utility models and applications therefore (including provisional applications) and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations in part thereof (collectively, "**Patents**"); (ii) all inventions (whether or not patentable, reduced to practice or made the subject of a pending patent application), invention disclosures and improvements, all trade secrets, proprietary information,

know-how and technology, confidential information and all documentation therefore ("**Trade Secrets**"); (iii) all works of authorship, copyrights (registered or otherwise), mask works, copyright and mask work registrations and applications and all other rights corresponding thereto throughout the world, and all rights therein provided by international treaties or conventions (collectively, "**Copyrights**"); (iv) all industrial designs and any registrations and applications therefore; (v) all trade names, logos, trademarks and service marks, whether or not registered, including all common law rights, and trademark and service mark registrations and applications, including but not limited to all marks registered in the Intellectual Property Office of the Ministry of Economic Affairs of the ROC, the United States Patent and Trademark Office, the Trademark Offices of the States and Territories of the United States of America, and the trademark offices of other nations throughout the world, and all rights therein provided by international treaties or conventions (collectively, "**Trademarks**"); (vi) all other rights in databases and data collections (including knowledge databases, customer lists and customer databases); (viii) all rights to Uniform Resource Locators, website addresses and domain names (collectively, "**Domain Names**"); (ix) all moral rights to claim authorship to or to object to any distortion, mutilation, or other modification or other derogatory action in relation to a work, however denominated; and (x) any similar, corresponding or equivalent rights to any of the foregoing.

"**knowledge**," **"knowledge of the Company**," or any other phrases of similar meaning, shall mean the actual knowledge (after reasonable inquiry) of the individuals set forth in Section 1 of the Company Disclosure Letter.

"**Law**" means any statute, law, ordinance, rule, regulation, order, judgment or decree.

"**Liabilities**" means any liability, indebtedness, obligation or commitment of any kind (whether accrued, absolute, contingent, matured, unmatured or otherwise and whether or not required to be recorded or reflected on a balance sheet under GAAP).

"**Lien**" means any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, non-statutory preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

"**Material Adverse Effect**" means any effect, change, event or circumstance (collectively, a "**Change**") that, individually or in the aggregate, has or would reasonably be expected to have or result in a material adverse effect on: (a) the business, condition (financial or otherwise), assets (tangible or intangible), liabilities (contingent or otherwise) or operations of the Acquired Companies taken as a whole; or (b) the ability of the Company to consummate the transactions contemplated by this Agreement; provided, however, that a Change shall not be deemed a Material Adverse Effect or considered in determining whether there has occurred (or would reasonably be expected to occur) a Material Adverse Effect, if (i) such Change results from (1) general changes, trends or developments in any of the industries in which the Company or any of its Subsidiaries operates, (2) changes in general economic, business, regulatory, political or market conditions or in national or global financial markets, (3) international calamity directly or indirectly involving the ROC, national calamity, an act of war (whether or not declared), sabotage, terrorism, military

actions or the escalation thereof, an act of God or other force majeure events, (4) changes in any applicable Laws or GAAP or enforcement or interpretation thereof, (5) any cancellation of or delays in customer orders, failure to obtain new customer orders, disruption in supplier, partnership, distributor, reseller or similar relationships, or loss of employees resulting in each case from the announcement or pendency of this Agreement, (6) shareholder class action or derivative litigation solely arising out of or relating to this Agreement or the proposed consummation of the Offer, the Merger or the other transactions contemplated by this Agreement (7) the failure of the Company to meet analysts' financial expectations or projections, published or internally prepared budgets, plans or forecasts, estimations or other financial performance measures or operating statistics (it being understood that the underlying causes of any such failure may be taken into account in determining whether a Material Adverse Effect has occurred), or (8) changes in trading volume or a decline in the Company's stock price (it being understood that the underlying causes of any such change or decline may be taken into account in determining whether a Material Adverse Effect has occurred), and (ii) with respect to clauses (1) through (4) above, the conditions or circumstances that caused such Change do not have an impact on the Acquired Companies, taken as a whole, that is in any material respect disproportionate to the average impact such conditions or circumstances have on the other companies in the Company's industry.

"**Materials of Environmental Concern**" means any pollutant, contaminant, hazardous, acutely hazardous, or toxic substance or waste defined and regulated as such under applicable Environmental Laws.

"**Open Source Code**" means any Computer Software that is distributed under "open source" or "free software" terms, including any Computer Software distributed under the GPL, LGPL, Mozilla License, Apache License, Common Public License, BSD license or similar terms and including any Computer Software with any license term or condition that: (a) requires or could require or conditions or could condition the availability of the functions of such Computer Software over a computer network or the distribution of such Computer Software, on the disclosure, licensing, or distribution of any source code for any portion of such Computer Software or any derivative work of such Computer Software; or (b) requires such Computer Software or other software combined or distributed with such Computer Software be distributable at no charge.

"**Person**" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any Governmental Authority.

"**Personal Data**" means a natural person's name, street address, postal code, telephone number, e-mail address, photograph, passport number, credit/debit card number, bank account number, or customer or account number, or any other piece of information that allows the identification of such natural person.

"**Registered IP**" means all Intellectual Property that is registered, filed, issued or granted under the authority of, with or by, any Governmental Authority, including all Patents, registered Copyrights, registered Trademarks, Domain Names and all applications for any of the foregoing.

"**Subsidiary**" of any Person means (i) a company more than fifty percent (50%) of the combined voting power of the outstanding voting stock of which is owned, directly or indirectly,

by such Person or by one of more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries thereof, (ii) any other Person of which stock or other equity interests having combined voting power to elect more than fifty percent (50%) of the board of directors, directly or indirectly, by such Person or by one of more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries thereof, or (iii) any other Person in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership or power to direct the policies, management and affairs thereof.

"**Superior Proposal**" shall mean any *bona fide*, written Acquisition Proposal that did not result from a breach of Section 7.3(a), (b) or (c) (i) which, if any cash consideration is involved, is not subject to any financing contingencies (and if financing is required, such financing is then fully committed to the third party making such Acquisition Proposal pursuant to a customary commitment letter from a nationally recognized financial institution) and (ii) with respect to which the Company Board determines in good faith, after consultation with its financial advisor of nationally recognized standing and its outside legal counsel, and after taking into account (A) all legal, financial, regulatory and other aspects of such Acquisition Proposal (including the Person or group of related Persons making the proposal), (B) all of the terms and conditions of such Acquisition Proposal (including any conditions, potential time delays or other risks to the consummation of such Acquisition Proposal), and (C) any counter offer or proposal made by Merger Sub pursuant hereto and within the time period required in Section 7.3(e) hereof, would be more favorable to the Company's shareholders from a financial point of view than the transactions contemplated by the Offer and this Agreement; provided, that for purposes of this definition, each reference in the definition of "Acquisition Transaction" to "10%" shall be deemed to be a reference to "50%".

"**Tax**" (and, with correlative meaning, "**Taxes**") means any federal, state, provincial, local or foreign taxes of whatever kind or nature (together with all interest, penalties and additions imposed with respect to such amounts) imposed by a Governmental Authority including taxes on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, unemployment, social security, workers' compensation, margin or net worth, and taxes in the nature of excise, withholding, ad valorem or value added taxes.

"**Tax Returns**" means any foreign or domestic (whether national, federal, state, provincial, local or otherwise) return, declaration, statement, report, schedule, form or information return relating to Taxes, including, without limitation, any amended tax return, declaration of estimated tax or claim for refund.

"**User Data**" means any Personal Data or other data or information collected by or on behalf of the Acquired Companies from end users of any Company Website or any Company Product.

ARTICLE II
THE OFFER

Section 2.1 The Offer.

(a) The Company hereby agrees to use its best efforts (i) to facilitate the review by the special committee of the Company Board (the "**Offer Review Committee**") of the Offer and (ii) subject to the fulfillment of the fiduciary duties of the Company Board under applicable Laws, to procure that the Company Board recommend the holders of Shares to accept the Offer and tender their Shares to Merger Sub pursuant to the Offer (the "**Company Recommendation**"). Promptly after receipt of the documents relating to the Offer, the Company will publicly announce and file the Taiwan Financial Supervisory Commission (the "**FSC**") a statement for the required disclosure according to the applicable FSC tender offer rules, including, among others, the Company Board's and the Offer Review Committee's comments to the Company's shareholders regarding the Offer. The Company agrees that it will not provide any negative comments on the Offer.

(b) Merger Sub will publicly announce the transactions contemplated by this Agreement on May 22, 2014, make applicable filings with the FSC for the Offer by May 23, 2014, and commence the Offer on May 26, 2014. The terms and conditions of the Offer are set out in the prospectus of the Offer. The Offer price per Share is NT$143.

(c) The initial expiration of the Offer shall be on the 50th day after the commencement of the Offer (the period of the Offer, as it may be extended as below, shall be referred to as the "**Offer Period**"). As a condition for consummation of the Offer, the minimum number of the Shares tendered shall not be less than 27,300,429 (the "**Minimum Shares**"). If during the initial Offer Period any of the conditions of the Offer shall have not been satisfied or waived by Merger Sub (if permitted hereunder), Merger Sub may extend the Offer for an additional 30 days or such shorter period as permitted by applicable Law. So long as the Minimum Shares is tendered within the Offer Period and all conditions of the Offer have been satisfied or waived by Merger Sub, the closing of the Offer will take place within seven (7) Business Days after the expiration of the Offer Period.

(d) On or before the date of commencement of the Offer, Merger Sub shall (i) file with the FSC the documents relating to the Offer as required by applicable Law or the FSC, which shall contain the prospectus and forms of the related letters of transmittal, public announcement and other ancillary documents and instruments required by applicable Law pursuant to which the Offer will be made (collectively with any supplements, amendments and exhibits thereto, and all deliveries, mailings and notices required by applicable Law, the "**Offer Documents**") and (ii) cause the Offer Documents to be disseminated to the holders of Shares and/or be posted to the Market Observation Post System ("**MOPS**") to the extent required by applicable Law.

ARTICLE III
THE MERGER

Section 3.1 The Merger.

Upon the terms and subject to the satisfaction or, to the extent permitted by applicable Laws, waiver of the conditions set forth in this Agreement and in accordance with applicable Laws, at the Closing Date, the Company shall be merged with and into Merger Sub. Following the Merger, the

separate corporate existence of the Company shall cease, and Merger Sub shall continue as the surviving corporation in the Merger (the "**Surviving Corporation**").

Section 3.2 Capital and Shares.

Upon the execution of this Agreement (i) the authorized share capital of Merger Sub is US$10,000,000,000, divided in 10,000,000,000 shares with a par value of US$1.00 per share, of which 3,021,456,271.47 shares have been issued, and (ii) the authorized capital of the Company is NT$1,000,000,000, divided into 100,000,000 shares with a par value of NT$10 per share, and the paid-in capital of the Company is NT$673,377,040, divided into 67,337,704.

Section 3.3 Closing.

The closing of the Merger (the "**Closing**") shall take place as soon as practicable on a date as mutually agreed upon by the Company Board and the board of directors of the Merger Sub but in no event later than the 30th Business Day following the satisfaction or, to the extent permitted by applicable Law, waiver of the conditions set forth in Article VIII (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or, to the extent permitted by applicable Law, waiver of those conditions), at the offices of Lee and Li, Attorneys-at-Law, 9F, No. 201, Tun Hua N. Road, Taipei 105, Taiwan, ROC, unless another date, time or place is agreed to in writing by Merger Sub and the Company. The date on which the Closing occurs is referred to in this Agreement as the "**Closing Date**").

Section 3.4 Effects of the Merger.

The Merger shall have the effects set forth in this Agreement and in the relevant provisions of applicable Law. Without limiting the generality of the foregoing, and subject thereto, at the Closing Date, all the property, rights, privileges, powers and franchises of the Company shall vest in the Surviving Corporation and be transferred to the Taiwan branch office of the Surviving Corporation, and all debts, liabilities and duties of the Company shall become the debts, liabilities and duties of the Surviving Corporation and be transferred to the Taiwan branch office of the Surviving Corporation.

Section 3.5 Memorandum and Articles of Association.

(a) At the Closing Date, the memorandum and articles of association of Merger Sub as in effect immediately prior to the Closing shall be the memorandum and articles of association of the Surviving Corporation until thereafter amended in accordance with the provisions thereof and applicable Law. No amendments will be made to the memorandum and articles of association of the Surviving Corporation.

(b) At the Closing Date, the name of Surviving Corporation is "Microchip Technology (Barbados) II Incorporated."

Section 3.6 Directors and Supervisors.

The directors of Merger Sub immediately prior to the Closing shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their successors are duly appointed in accordance with the memorandum and articles of association of the Surviving Corporation.

Section 3.7 Changes to the Merger Parties.

If there is any change to the parties involved in the Merger, Merger Sub and the Company will have to take the appropriate corporate actions in response to such change.

ARTICLE IV
EFFECT ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS

Section 4.1 Conversion of Capital Stock.

At the Closing Date, by virtue of the Merger and without any action on the part of the Company, Merger Sub or the holders of any shares of capital stock of the Company or Merger Sub:

(a) Each Share issued and outstanding immediately prior to the Closing Date (other than Shares to be canceled in accordance with Section 4.1(b) and other than any Dissenting Shares as defined in Section 4.5 hereof), shall thereupon be converted automatically into, and shall thereafter represent, the right to receive NT$143 in cash without interest, and subject to deduction for any required withholding Tax and any adjustment pursuant to Section 4.6 (the "**Merger Consideration**"). From and after the Closing Date, all such Shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of such a Share shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such Share in accordance with Section 4.3.

(b) Each Share owned by Merger Sub or by the Company immediately prior to the Closing Date shall automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

Section 4.2 Treatment of Options.

(a) At the Closing Date, each option (each, a "**Company Stock Option**") to purchase Shares granted under any employee, consultant, representative or director stock option, stock purchase or equity compensation plan, arrangement or agreement of the Company or any of its Subsidiaries (collectively, the "**Company Equity Plans**") that is exercisable and outstanding immediately prior to the Closing Date, taking into account any acceleration of exercisability that occurs, pursuant to the applicable award agreement, as a result of the transactions contemplated by this Agreement, shall be canceled and, in exchange therefor (and in full satisfaction thereof), the Surviving Corporation shall pay, to each Person who, at the time of such cancellation, was holding any such canceled Company Stock Option as soon as practicable following the Closing Date an amount in cash (without interest, and subject to deduction for any required withholding Taxes where applicable under any provision of any tax Laws and regulations) equal to the product of (i) the

excess (if any) of the Merger Consideration over the exercise price per Share under such Company Stock Option and (ii) the number of Shares subject to such Company Stock Option; provided, that if the exercise price per Share under any such Company Stock Option is equal to or greater than the Merger Consideration, then such Company Stock Option shall be canceled without any cash payment being made in respect thereof.

(b) At the Closing Date, each Company Stock Option that is outstanding and unexercisable immediately prior to the Closing Date, taking into account any acceleration of exercisability that occurs, pursuant to the applicable award agreement, as a result of the transactions contemplated by this Agreement (each, an "**Outstanding Unexercisable Company Option**"), shall be converted into and become an option to purchase Parent common stock, with such conversion effected through Parent: (i) assuming such Outstanding Unexercisable Company Option; or (ii) replacing such Outstanding Unexercisable Company Option by issuing a reasonably equivalent replacement stock option to purchase Parent common stock in substitution therefor, in either case in accordance with the terms (as amended in accordance with the terms of this Agreement) of the applicable Company Equity Plan and the terms of the stock option agreement by which such Outstanding Unexercisable Company Option is evidenced. All rights with respect to Shares under Outstanding Unexercisable Company Options assumed or replaced by Parent shall thereupon be converted into options with respect to Parent common stock. Accordingly, from and after the Closing Date: (A) each Outstanding Unexercisable Company Option assumed or replaced by Parent may be exercised solely for shares of Parent common stock; (B) the number of shares of Parent common stock subject to each Outstanding Unexercisable Company Option assumed or replaced by Parent shall be determined by multiplying the number of Shares that were subject to such Outstanding Unexercisable Company Option immediately prior to the Closing Date by the Conversion Ratio (as defined below), and rounding the resulting number down to the nearest whole number of shares of Parent common stock; (C) the per share exercise price for the Parent common stock issuable upon exercise of each Outstanding Unexercisable Company Option assumed or replaced by Parent shall be determined by dividing the per share exercise price of the Shares subject to such Outstanding Unexercisable Company Option, as in effect immediately prior to the Closing Date Time, by the Conversion Ratio, and rounding the resulting exercise price up to the nearest whole cent; and (D) subject to the terms of the stock option agreement by which such Outstanding Unexercisable Company Option is evidenced, any restriction on the exercise of any Outstanding Unexercisable Company Option assumed or replaced by Parent shall continue in full force and effect and the term, exercisability, vesting schedule and other provisions of such Outstanding Unexercisable Company Option shall, subject to the actions described in Section 7.13, otherwise remain unchanged as a result of the assumption or replacement of such Outstanding Unexercisable Company Option; provided, however, that (I) the board of directors of Parent or a committee thereof shall succeed to the authority and responsibility of the Company Board or any committee thereof with respect to each Outstanding Unexercisable Company Option assumed or replaced by Parent and (II) Parent may modify certain of the provisions in such Outstanding Unexercisable Company Options to conform to the practices under Parent's equity compensation plans. The "**Conversion Ratio**" shall be equal to the fraction having a numerator equal to the US Dollar equivalent of the Merger Consideration determined as of the Closing Date, which represents the fair market value of a Share as of the Closing Date, and having a denominator equal to the average of the closing sale prices of a share of Parent common stock as reported on the NASDAQ Global Select Market for each of the

ten consecutive trading days immediately preceding the Closing Date (the "**Average Parent Stock Price**"); provided, however, that if, between the date of this Agreement and the Closing Date, the outstanding Shares or Parent common stock are changed into a different number or class of shares by reason of any stock split, division or subdivision of shares, stock dividend, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction, then the Conversion Ratio shall be adjusted equitably and proportionately to the extent appropriate to preserve the intended consequences of the adjustment.

Section 4.3 Payment.

(a) At or prior to the Closing Date, Merger Sub shall deliver or cause to be delivered to the Company's stock agent (the "**Stock Agent**") cash in an amount sufficient to pay the aggregate Merger Consideration in accordance with Section 4.1(a) (the "**Payment Fund**"). The Stock Agent shall make payments of the aggregate Merger Consideration out of the Payment Fund in accordance with this Agreement. The Payment Fund shall not be used for any purpose other than to fund payments due pursuant to Section 4.1(a). The Surviving Corporation shall pay all charges and expenses, including those of the Stock Agent, incurred by them in connection with the payment of the Merger Consideration and other amounts contemplated by this Article IV.

(b) As soon as reasonably practicable on or after the Closing Date, the Surviving Corporation shall cause the Stock Agent to pay the Merger Consideration to each holder of record of uncertificated Shares represented by book-entry ("**Book-Entry Shares**"). After paying the Merger Consideration to each of the holder of the Book-Entry Shares, the Stock Agent shall apply with the Taiwan Depository & Clearing Corporation to cancel the Book-Entry Shares. The Merger Consideration shall be paid to the Person whose name is registered as the holder of the Shares. Each Book-Entry Share shall be deemed at any time after the Closing Date to represent only the right to receive upon such surrender or transfer the Merger Consideration pursuant to Section 4.1(a) payable in respect of Shares theretofore represented by such Book-Entry Shares, as applicable, without any interest thereon.

(c) The payment of the applicable Merger Consideration in accordance with the terms of this Article IV shall be deemed to have been delivered and paid in full satisfaction of all rights pertaining to the Shares formerly represented by such Book-Entry Shares. Two (2) business days prior to the lock-up period for the Closing, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers on the stock transfer books of the Shares of the Company.

(d) Any portion of the Payment Fund (and any interest or other income earned thereon) that remains undistributed to the holders of Book-Entry Shares nine months after the Closing Date shall be delivered to the Surviving Corporation upon demand, and any holders of Shares who have not theretofore complied with this Article IV shall thereafter look only to the Surviving Corporation, as general creditors thereof, for payment of the Merger Consideration with respect to Shares formerly represented by such Book-Entry Share, without interest.

Section 4.4 Withholding Rights.

To fulfill applicable Tax compliance requirements after the Closing Date, the Company and the Surviving Corporation have agreed that, where applicable under any provision of any tax Laws and regulations, the Surviving Corporation or the Stock Agent shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Shares, Company Stock Options or otherwise pursuant to this Agreement such amounts as the Surviving Corporation or the Stock Agent is required to deduct and withhold with respect to the making of such payment under any provision of any tax Laws and regulations. To the extent that amounts are so withheld and paid over to the appropriate taxing authority by the Surviving Corporation or the Stock Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made.

Section 4.5 Dissenting Shares.

Notwithstanding anything in this Agreement to the contrary, Shares issued and outstanding immediately prior to the Closing Date that are held by any holder who has not voted in favor of the Merger and who is entitled to demand and properly demands appraisal of such Shares pursuant to, and who complies in all respects with the ROC Company Act and the ROC Enterprise Mergers and Acquisitions Act ("**Dissenting Shares**") shall not be converted into the right to receive the Merger Consideration, unless and until such holder shall have failed to perfect, or shall have effectively withdrawn or lost, such holder's right to appraisal under applicable Law. Dissenting Shares shall be treated in accordance with the ROC Company Act and the ROC Enterprise Mergers and Acquisitions Act. If any such holder fails to perfect or withdraws or loses any such right to appraisal, then each such Share of such holder shall thereupon be converted into and become exchangeable only for the right to receive, as of the later of the Closing Date and the time that such right to appraisal has been irrevocably lost, withdrawn or expired, the Merger Consideration in accordance with Section 4.1(a). Immediately after the shareholders' meeting or the board meeting of the Company where the Merger is approved, as the case may be, the Company shall promptly notify Merger Sub of any demands for appraisal of any Shares, attempted withdrawals of such notices or demands and any other instruments received by the Company relating to rights to appraisal, and Merger Sub shall have the right to participate in all negotiations and proceedings with respect to such demands subject, prior to the Closing Date, to consultation with the Company. Prior to the Closing Date, the Company shall not, without the prior written consent of Merger Sub, which shall not be unreasonably withheld or delayed, make any payment with respect to, settle or offer to settle, or approve any withdrawal of any such demands.

Section 4.6 Adjustment of Merger Consideration.

In the event that the Company (a) issues cash dividend, or (b) changes the number of Shares issued and outstanding as a result of a stock split, stock dividend, recapitalization, subdivision, reclassification, combination or similar transaction with respect to the outstanding Shares, and in each case the record date therefor shall be prior to the Closing Date, the Merger Consideration and any other calculations based on or relating to Shares shall be, in the case of subsection (a), reduced by the amount of cash dividend per share on a dollar-for-dollar-basis, and in the case of subsection (b), appropriately, equitably and proportionately adjusted in light of such stock split, stock dividend, recapitalization, subdivision, reclassification, combination or similar transaction. Furthermore, if

any change of the Company's financial or business conditions have any Material Adverse Effect before the Closing Date, the Company Board and the board of the Merger Sub are authorized to further discuss and determine the proper adjustment, if necessary, to the Merger Consideration.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure letter delivered by the Company to Merger Sub prior to the execution and delivery of this Agreement (the "**Company Disclosure Letter**"), the Company represents and warrants to Merger Sub as of the date hereof until the date on which the new chairman of Company Board nominated by Merger Sub is elected (the "**Transition Date**") as follows:

Section 5.1 Organization, Standing and Power.

(a) Section 5.1 of the Company Disclosure Letter contains a complete and accurate list, for the Company and each of its Subsidiaries, of its name, its jurisdiction of organization, the Company's percentage ownership for any Subsidiary and the jurisdictions in which such entity is qualified to conduct business. Each of the Acquired Companies (i) is an entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept) under the Laws of the jurisdiction of its organization, (ii) has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted and (iii) is duly qualified or licensed to do business and is in good standing (with respect to jurisdictions that recognize such concept) in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary.

(b) The Company has delivered, made available, and will deliver to Merger Sub true, correct and complete copies of (i) the articles of incorporation, bylaws and other charter or organizational documents of each of the Acquired Companies currently in effect and any subsequent amendments thereto, (collectively, the "**Company Constituent Documents**") and (ii) the minutes and other records of the meetings and other proceedings (including any actions taken by written consent or otherwise without a meeting) of the equity holders of each of the Acquired Companies, the board of directors or managers of each of the Acquired Companies and all committees of the board of directors or managers of each of the Acquired Companies, in each case since January 1, 2011. The Company Constituent Documents are and will be in full force and effect on the date hereof and on the date of its amendment, as applicable. The Company has no Subsidiaries, except for the entities identified in Section 5.1 of the Company Disclosure Letter. None of the Acquired Companies has any equity interest in, or any interest convertible into or exchangeable or exercisable for any equity interest in, any other entity, other than those set forth in Section 5.1 of the Company Disclosure Letter.

Section 5.2 Capital Stock.

(a) The authorized capital stock of each Acquired Company and the issued and outstanding capital stock of each Acquired Company as of the date hereof are set forth in Section 5.2(a) of the Company Disclosure Letter. Each of the outstanding shares of capital stock or other equity

interests of each Acquired Company is, and the shares of capital stock that may be issued pursuant to Company Stock Options will be (when issued in accordance with the terms thereof), duly authorized, validly issued, fully paid and nonassessable and free of, and not in violation of, any preemptive rights. All shares and other equity interests of the Subsidiaries of the Company are owned by the Company or another wholly owned Subsidiary of the Company free and clear of all Liens of any nature whatsoever.

(b) As of the date of this Agreement, there are (i) 67,337,704 Shares issued and outstanding and (ii) no shares of preferred stock of the Company issued or outstanding. Except as set forth in Section 5.2(b) of the Company Disclosure Letter, as of the date of this Agreement, (A) there are no outstanding or authorized (1) any securities of any Acquired Company convertible into or exchangeable for shares of capital stock or voting securities of any Acquired Company, (2) any options, calls, warrants, non-statutory pre-emptive rights, anti-dilution rights or other rights, rights agreements, shareholder rights plans, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of any Acquired Company, or (3) any restricted share units issued to the employees of the any Acquired Company; (B) there are no outstanding obligations of any Acquired Company to repurchase, redeem or otherwise acquire any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of any Acquired Company or to provide a material amount of funds to, or make any material investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary, (C) no Acquired Company has issued, sold or granted phantom stock or other contractual rights the value of which is determined in whole or in part by the value of any capital stock of any Acquired Company, (D) there are no voting trusts or other agreements or understandings to which any of the Acquired Companies or any of their respective officers and directors is a party with respect to the voting of capital stock of any Acquired Company (except for the agreements between the Merger Sub, on the one hand, and the respective officers and directors of the Company, on the other hand), and (E) there are no outstanding bonds, debentures, notes or other indebtedness of any Acquired Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matter on which the shareholders or other equity holders of the Acquired Companies may vote.

(c) As of the date hereof, 2,602,000 Shares are subject to issuance pursuant to Company Stock Options granted and outstanding under the Company Equity Plans. Set forth in Section 5.2(c) of the Company Disclosure Letter is the following information with respect to each Company Stock Option outstanding as of the date of this Agreement: (i) the Company Equity Plan pursuant to which such Company Stock Option was granted; (ii) the code name of the holder of such Company Stock Option; (iii) the number of shares of Company common stock subject to such Company Stock Option; (iv) the exercise price of such Company Stock Option; (v) the date on which such Company Stock Option was granted; (vi) the extent to which such Company Stock Option is vested and exercisable as of the date of this Agreement and the times and extent to which such Company Stock Option is scheduled to become vested and exercisable after the date of this Agreement; (vii) the extent to which such Company Stock Option will be vested and exercisable as of the date hereof; (viii) the date on which such Company Stock Option expires and (ix) the country in which the holder of the Company Stock Option is located. Each holder of a Company

Stock Option is an officer or employee or former officer or employee of the Company, and is not providing services as an independent contractor or other nonemployee capacity. The Company has made available to Merger Sub accurate and complete copies of all stock equity plans pursuant to which the Company has granted Company Stock Options and the forms of all award agreements evidencing such Company Stock Options. There are no outstanding options or warrants to purchase Shares or other equity-based compensation awards that were issued other than pursuant to any Company Plan and set forth in Sections 5.2(c) of the Company Disclosure Letter.

(d) Section 5.2(d) of the Company Disclosure Letter sets forth, as of the date of this Agreement, the amount of indebtedness for borrowed money of the Company and its Subsidiaries (including any guarantee of any indebtedness of borrowed money of any Person).

Section 5.3 Authority.

The Company has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and, subject, in the case of the Merger, to the adoption and approval of this Agreement and the Merger by the affirmative vote by the holders of (i) a majority of the votes present at the Company Shareholders' Meeting attended by holders of at least two-thirds of the outstanding and issued shares of the Company's common stock, or (ii) at least two-thirds of the votes present at the Company Shareholders' Meeting attended by a holders of at least a majority but less than two-thirds of the issued and outstanding shares of the Company's common stock, as the case may be (the "**Company Shareholder Approval**"), to consummate the transactions contemplated hereby subject, in the case of the consummation of the Merger, to the filings with the FSC, the GreTai Securities Market ("**GTSM**"), and the Hsinchu Science Park Administration. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to approve this Agreement or to consummate the transactions contemplated hereby, subject, in the case of the consummation of the Merger, to obtaining the Company Shareholder Approval (if Merger Sub does not own at least 90% of the outstanding Shares). This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Merger Sub, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or Laws governing specific performance, injunctive relief or by general principles of equity). The Company Board, at a meeting duly called and held, has approved and declared advisable and in the best interests of the Company and its shareholders this Agreement and the Merger contemplated hereby.

Section 5.4 No Conflict; Consents and Approvals.

(a) Except as set forth in Section 5.4(a) of the Company Disclosure Letter, the execution, delivery and performance of this Agreement by the Company, and the consummation by the Company of the transactions contemplated hereby, do not and will not (i) conflict with or violate the Company Constituent Documents, (ii) assuming that all consents, approvals and

authorizations contemplated by clauses (i) through (iii) of subsection (b) below have been obtained and all filings described in such clauses have been made, conflict with or violate any Law or any settlement, injunction or award of any Governmental Authority, in each case that is applicable to the Company or any of its Subsidiaries or by which any of their respective properties are bound, (iii) result in any breach or violation of, or constitute a default (or an event which with notice or lapse of time or both would become a default), or result in a right of guaranteed payment or loss of a benefit under, or give rise to any right of termination, cancellation, amendment or acceleration of, any Material Contract to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or any of their respective properties are bound, (iv) result in any breach or violation of any Company Plan (including any award agreement thereunder), or (v) result in the creation of any Lien upon any of the properties or assets of the Acquired Companies.

(b) The execution, delivery and performance of this Agreement by the Company, and the consummation by the Company of the transactions contemplated hereby, do not and will not require any consent, approval, order, license, authorization or permit of, action by, filing, registration or declaration with or notification to, any Governmental Authority, except for (i) such filings as required under applicable securities and corporation Laws, (ii) the filings required under the applicable requirements of antitrust or other competition Laws, and all other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition ("**Antitrust Laws**"), and (iii) such filings as are necessary to comply with the applicable requirements of the FSC, the GTSM and Hsinchu Science Park Administration.

Section 5.5 Financial Statements.

(a) The Company has filed or furnished all forms, reports, statements, schedules, certifications and other documents (including all exhibits, amendments and supplements thereto) required to be filed by it with the Securities and Futures Bureau ("**SFB**") since January 1, 2011 (all such forms, reports, statements, schedules, certificates and other documents filed or furnished since January 1, 2011, collectively, the "**Company Filing Documents**"). As of their respective dates, or, if amended, as of the date of the last such amendment, each of the Company Filing Documents complied in all material respects with the applicable requirements of the applicable rules and regulations, as the case may be, each as in effect on the date so filed. Except to the extent that information in any Company Filing Document has been revised or superseded by a subsequently filed Company Filing Document, to the knowledge of the Company, none of the Company Filing Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company on behalf of its Subsidiaries has filed or furnished any form, report, statement, schedule, certificate or other document with the SFB, any foreign Governmental Authority that performs a similar function to that of the SFB or any securities exchange or quotation system according to the applicable Laws.

(b) The audited consolidated financial statements of the Company (including any related notes thereto) that are included in the Company Filing Documents (i) complied as to form in all material respects with the published rules and regulations of the SFB applicable thereto,

(ii) have been prepared in all material respects in accordance with the GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and (iii) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries at the respective dates thereof and the results of their operations and cash flows for the periods indicated. The unaudited consolidated financial statements of the Company (including any related notes thereto) that are included in the Company Filing Documents (x) complied as to form in all material respects with the published rules and regulations of the filing applicable thereto, (y) have been prepared in all material respects in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or may be permitted by GAAP) and (z) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates thereof and the results of their operations and cash flows for the periods indicated (subject to normal period-end adjustments).

(c) The Company and each of the Acquired Companies maintains a code of ethics, code of conduct or similar legal compliance program of a type customarily maintained by a company listed on the GTSM, and, to the knowledge of the Company, the Company has established and maintains a system of internal controls that is sufficient to monitor and provide reasonable assurance regarding compliance with such code of ethics, code of conduct or similar legal compliance program.

Section 5.6 No Undisclosed Liabilities.

Except as set forth in Section 5.6 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, except for liabilities and obligations (a) reflected or reserved against in the Company's unaudited consolidated balance sheet as at March 31, 2014 (or the notes thereto) included in the Company Filing Documents, (b) incurred in the ordinary course of business since March 31, 2014 consistent with past practice and consistent in nature and amount with those set forth on the Company's consolidated balance sheet as at March 31, 2014 or (c) which, individually or in the aggregate, have not or would not reasonably be expected to have a Material Adverse Effect.

Section 5.7 Certain Information.

None of the documents required to be filed by the Company with the SFB, disclosed at the MOPS, or required to be distributed or otherwise disseminated to the Company's shareholders by the Company in connection with the transactions contemplated by this Agreement (the "**Company Disclosure Documents**") will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading in the case of any Company Disclosure Document, at the time of the filing of such Company Disclosure Document or any supplement or amendment thereto and at the time of any distribution or dissemination thereof. The Company Disclosure Documents will comply in all material respects with the requirements of the applicable Laws. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to any information supplied by Merger Sub or any of its representatives for inclusion or incorporation by reference in the Company Disclosure Documents.

Section 5.8 Absence of Certain Changes or Events.

Since March 31, 2014, the businesses of the Company and its Subsidiaries have been conducted, in all material respects, in the ordinary course of business consistent with past practice, and there has not been any event, development, change or state of circumstances that, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect, or that, if occurred after the date hereof, would have resulted in a breach of Section 7.1.

Section 5.9 Litigation.

Except as set forth in Section 5.9 of the Company Disclosure Letter, (a) to the knowledge of the Company, there is no suit, claim, action, proceeding, arbitration, mediation, conciliation, consent decree, audit or investigation (each, an "**Action**") pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries or any of their respective officers, directors, representatives or properties, in the case of the Action against the officers, directors, representatives, in connection with the performance or non-performance of the duty in the capacity of being the officers, directors or representatives of the Company or any of its Subsidiaries, and (b) neither the Company nor any of its Subsidiaries nor any of their respective officers, directors, representatives or properties is or are subject to any material judgment, order, injunction, ruling or decree of any Governmental Authority, in the case of the Action against the officers, directors, representatives, in connection with the performance or non-performance of the duty in the capacity of being the officers, directors, representatives of the Company or any of its Subsidiaries.

Section 5.10 Compliance with Laws.

(a) Except as set forth in Section 5.10 of the Company Disclosure Letter, to the knowledge of the Company, the Company and each of its Subsidiaries are in, and at all times since January 1 2011 have been in, compliance with all Laws applicable to them in all material respects.

(b) Except with respect to Environmental Laws (which are the subject of Section 5.13), to the knowledge of the Company, the Company and its Subsidiaries have in effect all permits, licenses, grants, easements, clearances, variances, exceptions, consents, certificates, exemptions, registrations, authorizations, franchises, orders and approvals of all Governmental Authorities (collectively, "**Permits**") necessary for them to own, lease, operate or use their properties and to carry on their businesses as now conducted. All Permits of the Company and its Subsidiaries are in full force and effect.

(c) Except as set forth in Section 5.10 of the Company Disclosure Letter, since January 1, 2011, to the knowledge of the Company, none of the Acquired Companies has received any written notice or other written communication from any Governmental Authority regarding any actual or threatened revocation, withdrawal, suspension, cancellation, termination, deficiency, dispute or modification with respect to any material Permit.

(d) To the knowledge of the Company, no Person has filed or has threatened to file against the Company or any of its Subsidiaries a claim or action relating to any of the Company's or its Subsidiaries' respective assets or businesses under any applicable Laws.

(e) The Company and its Subsidiaries have at all times complied in a timely manner in all material respects with Laws regarding the use of funds for political activity or commercial bribery. To the knowledge of the Company, there are no situations with respect to the business of the Company or any of its Subsidiaries which involved or involves (i) the use of any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to political activity; (ii) the making of any direct or indirect unlawful payments to government officials or others from corporate funds or the establishment or maintenance of any unlawful or unrecorded funds; (iii) the violation of any of the provisions of The Foreign Corrupt Practices Act of 1977, or any rules or regulations promulgated thereunder, or any comparable Law or statute, or (iv) the receipt of any illegal discounts, rebates or kick-backs in violation of Law.

Section 5.11 Benefit Plans.

(a) Section 5.11(a) of the Company Disclosure Letter sets forth a complete and accurate list of each Company Plan currently in effect, which include all amendments as of the date hereof. With respect to each Company Plan, the Company has furnished, made available, and will furnish to Merger Sub a current, accurate and complete copy thereof and any subsequent amendments thereto and, to the extent applicable: all related trust agreements or other funding instruments, insurance contracts and administrative contracts.

(b) With respect to the Company Plans:

(i) to the knowledge of the Company, each Company Plan has been established and administered in accordance with its terms and in material compliance with applicable Laws, and all contributions required to be made under the terms of any Company Plan have been timely made;

(ii) to the knowledge of the Company, there is no Action (including any investigation, audit or other administrative proceeding) by any Governmental Authority or by any plan participant or beneficiary pending, threatened, relating to the Company Plans, any fiduciaries thereof with respect to their duties to the Company Plans, nor are there facts or circumstances that exist that would reasonably be expected to give rise to any such Actions; and

(iii) to the knowledge of the Company each Company Plan (A) if intended to qualify for special Tax treatment, has met all requirements for such treatment, and (B) if intended to be funded and/or book-reserved, is fully funded and/or book-reserved, as appropriate, based upon reasonable actuarial assumptions, and the Company and its Subsidiaries have complied with all their respective obligations under applicable Law.

(c) Neither the Company nor any of its Subsidiaries has any obligations for post-employment health or life benefits for any of their respective retired, former or current employees, except as required by Law.

(d) Except as specifically provided herein or set forth in Section 5.11(d) of the Company Disclosure Letter, the consummation of the Offer and the Merger and the other transactions contemplated hereby will not, either alone or together with any other event, (i) entitle any current or former employee, director, or independent contractor of the Company or any of its Subsidiaries to severance pay, or (ii) accelerate the time of payment or vesting or trigger any payment or funding (whether through a grantor trust or otherwise) of compensation or benefits under, increase the amount allocable or payable or trigger any other material obligation pursuant to, any Company Plan.

Section 5.12 Labor Matters.

Neither the Company nor any of its Subsidiaries is a party to, or is bound by, any collective bargaining agreement with any labor union or labor organization, or any other agreement regarding the rates of pay or working conditions of any employees. Neither the Company nor any of its Subsidiaries is obligated under any agreement to recognize or bargain with any labor organization, representative, or union. There is no labor dispute, strike, picketing, work stoppage or lockout, organizational activity, or, to the knowledge of the Company, threat thereof, by or with respect to any employees of the Company or any of its Subsidiaries, whether engaged in collective action or not. The Company and each of its Subsidiaries has complied in all material respects with all applicable legal, administrative and regulatory requirements relating to wages, hours, immigration, discrimination in employment and collective bargaining and comparable labor Laws, and are not liable for any arrears of wages or any taxes or penalties for failure to comply with any of the foregoing, except for such noncompliance as is not and would not, individually or in the aggregate, be material. Further, there are no material unfair labor practice charges, grievances, complaints or investigations pending or, to the knowledge of the Company, threatened by or on behalf of any employee or group of employees of the Company or any of its Subsidiaries, including any complaints alleging violations of the applicable Laws.

Section 5.13 Environmental Matters.

(i) The Company and each of its Subsidiaries are in material compliance with all applicable Environmental Laws, and possess and are in compliance with all applicable material Environmental Permits required under such Environmental Laws to operate as they currently operate; (ii) there are no Materials of Environmental Concern at any property owned or operated by the Company or any of its Subsidiaries, except under circumstances that are not reasonably likely to result in liability of the Company or any of its Subsidiaries under any applicable Environmental Laws; (iii) to the knowledge of the Company, neither the Company nor any of its Subsidiaries has received any written notification alleging that it is liable for, or request for information concerning, any release or threatened release of Materials of Environmental Concern at any location; and (iv) to the knowledge of the Company, neither the Company nor any of its Subsidiaries has received any written claim or complaint, or is currently subject to any proceeding, relating to noncompliance with Environmental Laws or any other liabilities pursuant to Environmental Laws, and to the knowledge of the Company, no such matter has been threatened in writing which is unresolved.

Section 5.14 Tax.

(a) To the knowledge of the Company, except as set forth in Section 5.14(a) of the Company Disclosure Letter, each of the Company and its Subsidiaries has timely paid all Taxes it is required to pay. All Tax Returns required by applicable Law to be filed by or on behalf of the Company or any of its Subsidiaries have been timely filed in accordance with all applicable Laws (after giving effect to any extensions of time in which to make such filings), all such Tax Returns are correct and complete in all material respects and disclose all material Taxes required to be paid by the Company and each Subsidiary for the periods covered thereby, all Taxes shown to be due on such Tax Returns have been paid.

(b) Except as set forth in Section 5.14(b) of the Company Disclosure Letter, the income Tax Returns referred to in Section 5.14(a) have been examined by the appropriate taxing authority or the period for assessment of the Taxes in respect of which such Tax Returns were required to be filed has expired.

(c) To the knowledge of the Company, all Taxes which the Company or any of its Subsidiaries are required by Law to withhold or collect for payment have been duly withheld and collected, and have been paid to the appropriate Governmental Authority or accrued, reserved against and entered on the books of the Company.

(d) To the knowledge of the Company, neither the Company nor any of its Subsidiaries had any Liabilities for material unpaid Taxes as of the date of the balance sheet of March 31, 2014that had not been accrued or reserved on the such balance sheet in accordance with GAAP, and neither the Company nor any of its Subsidiaries has incurred any Liability for Taxes since March 31, 2014 other than in the ordinary course of business consistent with past practice.

(e) To the knowledge of the Company, neither the Company nor any of its Subsidiaries has any liability for Taxes of any other Person (other than the Company and its Subsidiaries), pursuant to any Tax allocation or Tax indemnity agreement, as a transferee or successor or otherwise other than any contract entered into in the ordinary course of business the principal purpose of which is not related to tax.

(f) There is no Action pending or, to the knowledge of the Company, threatened in writing against or with respect to the Company or any of its Subsidiaries with respect to any Taxes, and all deficiencies asserted or assessments made as a result of the examination of any Tax Returns have been paid in full.

(g) To the knowledge of the Company, no written claim has been made by a Governmental Authority in a jurisdiction where the Company or its Subsidiaries does not file Tax Returns that the Company or any of its Subsidiaries is or may be subject to Tax in that jurisdiction.

(h) Any Tax incentives and concessions, including Tax holidays, Tax refunds, or similar Tax attributes claimed by the Company or its Subsidiaries, have where necessary been supported by relevant approval from the applicable Governmental Authorities. Where Tax incentives

and/or concessions are statutory and do not require government approval to be valid, this section does not apply.

Section 5.15 Contracts.

(a) For all purposes of and under this Agreement, a "**Material Contract**" means each of the following Contracts of the Acquired Company, in each case, since January 1, 2011:

(i) any Contract that would be required to be disclosed by the Company on the MOPS or in the annual reports;

(ii) other than at-will offer letters on the Company's standard form containing no severance provisions or consulting Contracts which may be cancelled on less than ninety (90) days notice without penalty to the Company, any employment or independent contractor Contract (in each case, under which the Company has continuing obligations as of the date hereof) with any current or former executive officer, consultant, independent contractor, or employee of the Company or its Subsidiaries or member of the Company Board providing for an annual base compensation in excess of NT$2,000,000;

(iii) any Contract or plan (including any stock option plan, stock appreciation right plan or stock purchase plan) any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the consummation of the transactions contemplated hereby (including the Merger) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement (including the Merger);

(iv) any Contract containing any covenant, commitment or other obligation (A) limiting the right of the Company or any of its Subsidiaries to engage in any line of business, to make use of any Company Intellectual Property Rights, or to compete with any Person in any line of business, or (B) granting any exclusive rights;

(v) any Contract that is royalty-bearing providing for payment in excess of NT$1,500,000 annually;

(vi) any Contract (A) relating to the disposition or acquisition by the Company or any of its Subsidiaries after the date of this Agreement of a material amount of assets other than in the ordinary course of business or (B) pursuant to which the Company or any of its Subsidiaries will acquire any material ownership interest in any other Person or other business enterprise other than the Company's Subsidiaries;

(vii) the top five (5) Contracts (as measured by aggregate dollar amount contemplated under each Contract) in each of the following categories: (i) end-user or customer contracts, (ii) value added reseller contracts, (iii) distributor contracts, (iv) supplier contracts, (v) OEM contracts, and (vi) development contracts;

(viii) any Contract (A) containing any financial penalty in excess of NT$1,500,000 for the failure by the Company or any of its Subsidiaries to comply with any support or maintenance obligation except for such Contracts on the Company's standard form of customer agreement or (B) containing any obligation to provide support or maintenance for the Company Products for any period in excess of twelve (12) months;

(ix) (A) any Contract to license any third party to manufacture or reproduce any Company Products or (B) the top five (5) Contracts to authorize any third party to sell, license or distribute any Company Products;

(x) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other Contracts relating to the borrowing of money or extension of credit, in each case in excess of NT$2,000,000, other than (A) accounts receivables and payables and (B) loans to direct or indirect wholly-owned Subsidiaries, in each case in the ordinary course of business consistent with past practice;

(xi) any settlement Contract other than (A) releases immaterial in nature or amount entered into with former employees or independent contractors of the Company in the ordinary course of business or (B) settlement agreements for cash only (which has been paid) and does not exceed NT$3,000,000 as to such settlement;

(xii) any other Contract that provides for payment obligations by the Company or any of its Subsidiaries of NT$3,000,000 or more in any individual case and is not disclosed pursuant to clauses (i) through (xi) above;

(xiii) any Contract with the Governmental Authority;

(xiv) any lease of any real property; and

(xv) any Contract, or group of Contracts with a Person (or group of affiliated Persons), the termination or breach of which would be reasonably expected to have a Material Adverse Effect on any material product or service offerings of the Company or otherwise reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, and is not disclosed pursuant to clauses (i) through (xiv) above.

(b) Section 5.15(b) of the Company Disclosure Letter contains an accurate and complete list of all Material Contracts as of the date of this Agreement. As of the date of this Agreement, accurate and complete copies of all Contracts that are Material Contracts (including all exhibits and schedules thereto) have been made available.

(c) Each Material Contract is valid and binding on each Acquired Company that is a party thereto, and, to the knowledge of the Company, each other party thereto, and is in full force and effect, enforceable against such Acquired Company that is a party thereto in accordance with its terms, except that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting or relating to creditors' rights generally. None of the Acquired Companies has materially violated or materially breached, or committed any

material default under, any Material Contract, and to the knowledge of the Company, no other Person has materially violated or materially breached, or committed any material default under, any Material Contract. To the knowledge of the Company, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) (A) results in a material violation or material breach of any of the provisions of any Material Contract, (B) gives any Person the right to declare a default or exercise any remedy under any Material Contract, (C) gives any Person the right to receive or require a rebate, chargeback, penalty or change in delivery schedule under any Material Contract, (D) gives any Person the right to accelerate the maturity or performance of any Material Contract, or (E) gives any Person the right to cancel, terminate or modify any Material Contract. Since January 1, 2011, none of the Acquired Companies has received any written notice regarding any actual or possible violation or breach of, or default under, any Material Contract.

Section 5.16 Insurance.

The Company has made available complete copies of all material insurance policies owned or held by the Company and each of its Subsidiaries. Neither the Company nor any of its Subsidiaries is in material breach or default, and to the knowledge of the Company, neither the Company nor any of its Subsidiaries has taken any action or failed to take any action which, with notice or the lapse of time or both, would constitute such a material breach or default, or permit termination or modification of, any of such insurance policies. To the knowledge of the Company, neither the Company nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of the Company or any of its Subsidiaries.

Section 5.17 Real Property.

(a) Section 5.17(a) of the Company Disclosure Letter sets forth a true and complete list of all of the real property owned by the Company or any of its Subsidiaries as of the date hereof (the "Owned Real Property"). Except as set forth in Section 5.17(a) of the Company Disclosure Letter of the Company Disclosure Letter, the Company owns the Owned Real property free and clear of all Liens.

(b) Section 5.17 (b)(i) of the Company Disclosure Letter contains a complete and accurate list of all of the material leases, subleases, licenses, or other agreements in existence as of the date hereof under which the Acquired Companies uses or occupies or has the right to use or occupy, now or in the future, any real property (collectively, the "**Leases**;" such property, the "**Leased Real Property**" and, collectively with the Owned Real Property, the "**Real Property**") including, with respect to each Lease, the name of the lessor, or the master lessor and sublessor, the date and term of the Lease, the square footage of the premises leased thereunder, and the aggregate annual rental payable thereunder. The Company has heretofore made available to Merger Sub true, correct and complete copies of all Leases currently in effect. The Acquired Companies have and own valid leasehold estates in the Leases and the Leased Real Property. Section 5.17 (b)(ii) of the Company Disclosure Letter of the Company Disclosure Letter contains a complete and accurate list of all of the leases, subleases, licenses, or other agreements in existence as of the date hereof granting to any Person, other than the Company or any of its Subsidiaries, any right to use or occupy, now or in the future, any of the Real Property (collectively, the "**Third Party Leases**") including, with respect to each such Third Party Lease, the name of the master lessor, sublessor and sublessee,

the date of the Third Party Lease and each amendment thereto, the square footage of the premises leased thereunder, and the aggregate annual rental payable thereunder. The Leases and the Third Party Leases are each in full force and effect and neither the Company nor any of its Subsidiaries is in material breach of or material default under, or has received written notice of any breach of or default under, any Lease or Third Party Lease, and, to the knowledge of the Company, no event has occurred that with notice or lapse of time or both would constitute a material breach or material default thereunder by the Company or any of its Subsidiaries or any other party thereto. The Company and each of its Subsidiaries has performed all of its obligations in all material respects under any termination agreements pursuant to which it has terminated any leases of real property that are no longer in effect and has no continuing liability with respect to such terminated real property leases.

(c) Neither the Company nor any of its Subsidiaries owes brokerage commissions or finder's fees with respect to any Real Property. The Company and its Subsidiaries as of the date hereof occupy all of the Real Property for the operation of their business, except pursuant to Third Party Leases, there are no other parties occupying or with a right to occupy the Real Property. The Company and its Subsidiaries do not use or occupy or have the right to use or occupy any real property other than the Real Property. The Company has not transferred or assigned any interest in any Lease, nor has the Company subleased or otherwise granted rights of use or occupancy of any of the premises described therein to any other person or entity, except as described in Section 5.17(b)(ii) of the Company Disclosure Letter.

(d) To the knowledge of the Company, each Real Property and all of its operating systems are in good operating condition and repair, and free from material structural, physical, mechanical, electrical, plumbing, roof or other defects, is maintained in a manner consistent with industry standards generally followed with respect to similar property, and is suitable for the conduct of the business of the Company and its Subsidiaries as presently conducted.

(e) To the knowledge of the Company, the Company has not received any written notice from any insurance company of any defects or inadequacies in any Real Property or any part thereof which would reasonably be expected to materially and adversely affect the insurability of such Real Property or the premiums for the insurance thereof. To the knowledge of the Company, to written notice has been given by any insurance company which has issued a policy with respect to any portion of any Real Property or by any board of fire underwriters (or other body exercising similar functions) requesting the performance of any repairs, alterations or other work with which compliance has not been made.

(f) Neither the operations of the Company or any of its Subsidiaries on the Real Property nor, to the knowledge of the Company, any Real Property, including the improvements thereon, violate in any material respect any applicable building code, zoning requirement or other Law relating to such property.

(g) Except to the extent that such would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole: (i) there is no pending or, to the knowledge of the Company, threatened condemnation or similar proceeding affecting any Real Property or any portion thereof, and the Company has no knowledge that any such action is currently contemplated,

(ii) there are no legal proceedings pending or, to the knowledge of the Company, threatened against the Company, or, to the knowledge of the Company, against third parties affecting any Real Property, and the Company is not aware of any facts which might result in any such legal proceeding, and (iii) there are no pending or, to the knowledge of the Company, threatened special assessments or improvements or activities of any public or quasi-public body either planned, in process, or completed which may give rise to any special assessment against any Real Property.

Section 5.18 Assets; Personal Property.

The machinery, equipment, furniture, fixtures and other tangible personal property and assets owned, leased or used by the Company or any of its Subsidiaries (the "**Assets**") are, in the aggregate, sufficient and adequate to carry on their respective businesses in all material respects as conducted as of the date hereof, and the Company and its Subsidiaries are in possession of and have good title to, or valid leasehold interests in or valid rights under contract to use, such Assets that are material to the Company and its Subsidiaries, taken as a whole, free and clear of all Liens, or defects in title that, individually or in the aggregate, are not and would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole.

Section 5.19 Intellectual Property.

(a) Registered IP. Section 5.19(a) of the Company Disclosure Letter accurately identifies each item of Registered IP in which an Acquired Company has or purports to have an ownership interest of any nature (whether exclusively, jointly with another Person or otherwise) as of the date hereof ("**Company Registered IP**"). The Company Registered IP is subsisting and, to the knowledge of the Acquired Company, valid and enforceable. The Company has no knowledge of any information, materials, facts or circumstances, including any information or fact that would constitute prior art, that would render any of such Company Registered IP invalid or unenforceable, or would materially affect any pending application for any Company Registered IP. The Company has not misrepresented, or knowingly failed to disclose, any facts or circumstances in any application or proceedings for any Company Registered IP that would constitute fraud or a misrepresentation with respect to such application or that would otherwise affect the enforceability of any Company Registered IP. To the knowledge of the Company, with respect to each item of Company Registered IP: (i) all necessary registration, maintenance and renewal fees have been paid, and all necessary documents and certificates have been filed with the relevant patent, copyright, trademark, domain registrars or other authorities in the ROC, the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered IP; (ii) is in material compliance with all formal legal requirements with respect thereto (including payment of filing, examination and maintenance fees and proofs of use), and (iii) is not subject to any unpaid maintenance fees or taxes. Except as set forth in Section 5.19(a) of the Company Disclosure Letter, there are no actions that must be taken by Company or its Subsidiaries by December 31, 2014, including, with respect to each item of Company Registered IP, the payment of any registration, maintenance or renewal fees or the filing of any documents, applications or certificates for the purposes of maintaining, perfecting or preserving or renewing any Company Registered IP.

(b) Inbound Licenses. To the knowledge of the Company, Section 5.19(b) of the Company Disclosure Letter accurately identifies: (i) each Contract pursuant to which the Acquired Companies license, use, or have the right to use any Company IP pursuant to a Company IP Contract described in Section 5.19(e) of the Company Disclosure Letter; and (ii) each other Contract pursuant to which the Acquired Companies license, use, or have the right to use any Company IP, including for third party Computer Software (other than, in each instance in respect of clause (i) and clause (ii) of this Section 5.19(b): (A) agreements between an Acquired Company, on the one hand, and any employee, on the other hand; (B) non-exclusive licenses to "off-the-shelf" third party Computer Software that is generally available on standard commercial terms, is not distributed by an Acquired Company, is not incorporated into, or used directly in the distribution, delivery, maintenance or support of, any Company Product, and is not otherwise material to the operation of the Company Business; and (C) non-exclusive licenses to Open Source Code, to the extent identified on Section 5.19(l)(i) of the Company Disclosure Letter), in each case specifying the parties to the Contract (the "**Company Inbound Licenses**").

(c) Outbound Licenses. To the knowledge of the Company, Section 5.19(c) of the Company Disclosure Letter accurately identifies each Contract pursuant to which any Person has been granted any license under, or otherwise has received or acquired any right (whether or not currently exercisable) or interest in, any Company IP which is owned by an Acquired Company (the "**Company Outbound Licenses**"). The Acquired Companies are not bound by, and no Company IP which is owned by an Acquired Company is subject to, any Contract containing any covenant or other provision that in any way limits or restricts the ability of the Acquired Companies to use, exploit, assert or enforce any Company IP which is owned by an Acquired Company anywhere in the world.

(d) Royalty Obligations. Section 5.19(d) of the Company Disclosure Letter contains a complete and accurate list and summary of all royalties, fees, commissions and other amounts payable to the Acquired Companies by any other Person upon or for the use of any Company IP under any Company Outbound License.

(e) Company IP Contracts. Section 5.19(e) of the Company Disclosure Letter contains an accurate and complete list of the Company IP Contracts other than (A) agreements between an Acquired Company, on the one hand, and any employee, on the other hand which are in the form of the agreements that have been disclosed the Merger Sub prior to the date hereof; (B) and agreements between an Acquired Company, on the one hand, and their contracted Chinese field applications engineers, on the other hand which are in the form of the agreements that have been disclosed the Merger Sub prior to the date hereof; (C) non-exclusive licenses to "off-the-shelf" third party Computer Software that is generally available on standard commercial terms, is not distributed by an Acquired Company, is not incorporated into, or used directly in the distribution, delivery, maintenance or support of, any Company Product, and is not otherwise material to the operation of the Company Business. The Company has delivered, made available, and will deliver to Merger Sub true, correct and complete copies of the Company IP Contracts.

(f) Ownership. To the knowledge of the Company, the Acquired Companies own all right, title and interest in, or otherwise have a valid and enforceable right to use, the Company IP, free and clear of all Liens. Without limiting the generality of the foregoing:

(i) to the knowledge of the Company, all documents and instruments necessary to vest or perfect the ownership or license rights of the Acquired Companies in all material Intellectual Property Rights of Company IP have been validly executed, delivered and filed in a timely manner with the appropriate Governmental Authority, if applicable;

(ii) each employee of the Acquired Companies who is or was involved in the creation or development of any Company IP currently owned by an Acquired Company, including any inventor on any such Patent, has signed a valid and enforceable agreement containing an irrevocable assignment of Intellectual Property Rights in such Company IP to the Acquired Companies and confidentiality provisions protecting such Company IP, and to the knowledge of the Company, no such employee has any obligation to any university, Governmental Authority or other Person with respect to such Company IP;

(iii) the Acquired Companies have taken reasonable steps to protect and preserve the confidentiality of all Trade Secrets included in the material Company IP;

(iv) to the knowledge of the Company, the Acquired Companies, and after the Closing, the Surviving Corporation will, own or otherwise have sufficient rights to use the Company IP in the manner that the Acquired Companies currently use such Company IP; and

(v) to the knowledge of the Company, no employee of the Acquired Companies (A) is in violation of any term or covenant of any Contract with any other Person relating to the assignment of any Intellectual Property or any Intellectual Property Right, or confidentiality or disclosure of any Trade Secrets, proprietary data, customer lists or other business or technical information, or (B) has developed any Intellectual Property for any Acquired Corporation that is subject to an agreement that grants to any other Person any rights (including Intellectual Property Rights) in or to such Intellectual Property.

(g) No Third Party Infringement of Company IP. To the knowledge of the Company, no Person (or any of such Person's products or services or other operation of such Person’s business) is infringing upon or otherwise violating any Company IP owned by an Acquired Company, and no Acquired Company has asserted or threatened any claim against any Person alleging the same.

(h) Effects of This Transaction. To the knowledge of the Company, except as disclosed in Section 5.19(h) of the Company Disclosure Letter, neither the execution, delivery or performance of this Agreement or any other agreements referred to in this Agreement nor the consummation of any of the transactions contemplated by this Agreement or any such other agreement entered into in connection herewith or therewith will, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare: (i) a loss of, or Lien on, any Company IP; (ii) a breach of or default under any Company IP Contract; (iii) the release, disclosure or delivery of any Company IP by or to any escrow agent or other Person; (iv) the grant,

assignment or transfer to any other Person of any license or other right or interest under, to or in any of the Company IP; or (v) by the terms of any Contract, a reduction of any royalties, revenue sharing, or other payments the Acquired Companies would otherwise be entitled to with respect to any Company IP.

(i) No Infringement of Third Party IP Rights. To the knowledge of the Company, neither the operation of the Company Business by the Acquired Companies nor any Acquired Company is currently infringing (directly, contributorily, by inducement or otherwise), misappropriating or otherwise violating, has infringed (directly, contributorily, by inducement or otherwise) misappropriated or otherwise violated any Intellectual Property Right of any other Person. To the knowledge of the Company, no Company Software and no other Company Product developed, marketed, distributed, licensed, sold, offered or provided by the Acquired Companies infringes or violates any Intellectual Property Right of, or contains any Intellectual Property misappropriated from, any other Person. Without limiting the generality of the foregoing:

(i) To the knowledge of the Company, no infringement, misappropriation or similar claim or Action is pending or threatened against the Acquired Companies or, to the knowledge of the Company, against any other Person who is entitled to be indemnified, defended, held harmless or reimbursed by the Acquired Companies with respect to any such claim or Action, and the Acquired Companies have not received any written notice or other written communication requesting, claiming, or demanding any of the foregoing with respect to any such claim or Action;

(ii) the Acquired Companies have not received any notice or other communication (in writing or otherwise) relating to any actual, alleged or suspected infringement, misappropriation or violation of any Intellectual Property of another Person, including any letter or other communication suggesting or offering that the Acquired Companies obtain a license to any Intellectual Property of another Person;

(iii) the Acquired Companies have complied with all of the license terms of each Contract disclosed or required to be disclosed in Section 5.19(b) of the Company Disclosure Letter in all material respects, including in respect of each item of third party Computer Software;

(iv) the Acquired Companies are not bound by any Contract to indemnify, defend, hold harmless or reimburse any other Person with respect to, or otherwise assumed or agreed to discharge or otherwise take responsibility for, any claim of infringement, misappropriation or violation of any Intellectual Property or Intellectual Property Rights (other than indemnification provisions in the Company IP Contracts described in Section 5.19(e) of the Company Disclosure Letter); and

(v) each Acquired Company that participates, or has participated, in any standards-setting or other industry organization is in material compliance with all rules, requirements, and other obligations of any such organization. No Acquired Company has any duty or obligation to license, or offer to license, any Company IP owned by an Acquired Company as a result of or in connection with the participation by any Acquired Company in any standards-setting or other industry organization.

(j) No Harmful Code. To the knowledge of the Company, none of the Computer Software (including web sites, HTML code, and firmware and other software embedded in hardware devices) owned, developed (or currently being developed), used, marketed, distributed, licensed or sold by the Acquired Companies as part of or incorporated into any Company Product, or otherwise used in the operation of the Company Business (excluding any "off-the-shelf" third party Computer Software that is generally available on standard commercial terms, is not distributed by the Acquired Companies, is not incorporated into, or used in the development, distribution, delivery, maintenance or support of, any product or service of the Acquired Companies, and is not otherwise material to the business of the Acquired Companies) contains any bug, defect, error, "back door," "drop dead device," "time bomb," "Trojan horse," "virus," or "worm" (as such terms are commonly understood in the software industry) or any other code intentionally designed to permit or perform, any of the following functions: (i) disrupting, disabling, harming or otherwise impeding in any manner the operation of, or providing unauthorized access to, a computer system or network or other device on which such code is stored or installed or any product or system containing or used in conjunction with such Computer Software, (ii) damaging or destroying any data or file without the user's consent, or (iii) any other similar type of unauthorized activities. To the knowledge of the Company, none of the Company Software contains any unresolved "bug," defect, or error relating to the use, functionality, or performance of such Company Software that has resulted in or could reasonably be expected to result in any material refund, credit or similar compensation being provided to such customer.

(k) Source Code. To the knowledge of the Company, no source code for any Company Software has been lost, damaged, stolen, or destroyed. To the knowledge of the Company, no source code for any Company Software has been delivered, licensed or made available to any escrow agent or other Person who is not an employee of any of the Acquired Companies as of the date of this Agreement. To the knowledge of the Company, the Acquired Companies do not have any duty or obligation (whether present, contingent or otherwise) to deliver, license or make available the source code for any Company Software to any escrow agent or other Person who is not an employee of any of the Acquired Companies as of the date of this Agreement, and no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or would reasonably be expected to, result in the delivery, license or disclosure of the source code for any Company Software to any such Person.

(l) Use of Open Source Code.

(i) To the knowledge of the Company, Section 5.19(l)(i) of the Company Disclosure Letter accurately identifies and describes: (A) each item of Open Source Code that is contained in, distributed with or linked to the Company Software or from which any part of any Company Software is derived; (B) the applicable license terms for each such item of Open Source Code as included in copies of such item of Open Source Code; and (C) the Company Software to which each such item of Open Source Code relates.

(ii) To the knowledge of the Company, the Acquired Companies have materially complied with all of the licenses for each item of Open Source Code disclosed or required to be disclosed in Section 5.19(l)(i) of the Company Disclosure Letter.

(iii) To the knowledge of the Company, the Acquired Companies' use, making available over a network, marketing, distribution, licensing, and sale of Company Software does not violate any license terms applicable to any item of Open Source Code disclosed or required to be disclosed in Section 5.19(l)(i) of the Company Disclosure Letter, and the license terms covering each item of Open Source Code disclosed, or required to be disclosed, in Section 5.19(l)(i) of the Company Disclosure Letter are sufficient for the Acquired Companies' use of each such item of Open Source Code in the operation of the business of the Acquired Companies as currently conducted and currently planned by the Acquired Companies to be conducted.

(iv) To the knowledge of the Company, no Company Software contains, is derived from, is distributed with or is being or was developed using Open Source Code in a manner that under the terms of the license for such Open Source Code: (A) imposes or could impose a requirement or condition that the Acquired Companies grant a license under its Patent rights to its licensees; (B) imposes a requirement that any Company Software or part thereof: (1) be disclosed or distributed in source code form; (2) be licensed for the purpose of making modifications or derivative works; or (3) be redistributable at no charge; or (C) otherwise imposes or could impose any other material limitation, restriction, or condition on the right or ability of the Acquired Companies to use or distribute any such Company Software; provided, that the inclusion of copyright notices shall not be considered such a limitation, restriction or condition.

(m) Privacy Policies. To the knowledge of the Company, the use and dissemination of any and all data and information concerning individuals by the Acquired Companies is in compliance in all material respects with all applicable privacy Laws, policies and terms of use of the Acquired Companies. To the knowledge of the Company, the Acquired Companies have not: (i) suffered any material information security breach with respect to any data and information concerning any employee, independent contractor, consultant or director of or to any of the Acquired Companies or current or former customer; or (ii) notified any employee, independent contractor, consultant or director of or to any of the Acquired Companies or current or former customer or any law enforcement authority of any information security breach.

(n) Ownership and Use of Data. To the knowledge of the Company, the Acquired Companies have all necessary and required rights to use, reproduce, modify, create derivative works of, license, sublicense, distribute and otherwise exploit, as applicable, the data contained in the Company Data including in connection with the operation of the Company Business in the manner that the Acquired Companies currently use such Company Data.

(o) Information Technology. To the knowledge of the Company, all Company IT Systems have been maintained in accordance with the applicable manufacturers' documentation to ensure proper operation, monitoring and use in all material respects. To the knowledge of the Company, the Company IT Systems are in good working condition to effectively perform all information technology operations necessary to conduct the Company Business of the Acquired Companies. The Acquired Companies have not experienced within the past two years any material disruption to, or material interruption in, the conduct of the Company Business, including any event, disruption or defect that resulted in the provision of service level credits or the like to any counterparty under any Contract, that is attributable to a defect, bug, breakdown or other failure or

deficiency of the Company IT Systems. The Acquired Companies have taken commercially reasonable measures to provide for the back-up and recovery of the data and information necessary to the conduct of the Company Business of the Acquired Companies (including such data and information that is stored on magnetic or optical media in the ordinary course) without material disruption to, or material interruption in, the conduct of the Company Business of the Acquired Companies. To the knowledge of the Company, the Acquired Companies are in material compliance with all Contracts to which they are a party related to any Company IT System.

(p) Information Security. The Acquired Companies have established and are in material compliance with its policies and procedures regarding information security regarding: (i) administrative, technical and physical safeguards designed to safeguard the security, confidentiality, and integrity of transactions and Company Data; and (ii) unauthorized access to the Company IT Systems or Company Data and the systems of any third party service providers that have access to Company Data or Company IT Systems. The Acquired Companies have not suffered a material security breach with respect to any of the Company Data in the last two years. To the knowledge of the Company, no material breach or violation of any security program described above has occurred or threatened in writing, and there has been no unauthorized or illegal use of or access to any Company Data. The Acquired Companies have not notified, or been required to notify, any Person of any information security breach involving User Data.

Section 5.19 Relationships with Customers and Suppliers.

(a) Except as set forth in Section 5.20(a) of the Company Disclosure Letter, since January 1, 2013, (a) no customer who, in the 12-month period ended March 31, 2014 was one of the five (5) largest sources of revenue for the Company, based on amounts paid or payable during such period (each a "**Significant Customer**") has notified the Company or any of its Subsidiaries that such Significant Customer intends to, or is considering or has otherwise threatened to, cancel, terminate, modify or fail to renew any Contract to which such Significant Customer or any of its Affiliates, on the one hand, and the Company or any of its Subsidiaries, on the other hand, is a party and (b) there exists no actual or, to the knowledge of the Company, threatened termination, material cancellation or material limitation of, or any material modification or change in, the business relationship of the Company and its Subsidiaries with any Significant Customer or group of Significant Customer of the Company and its Subsidiaries. Except as set forth in Section 5.20(a) of the Company Disclosure Letter, there exists no present or future condition or state of facts or circumstances involving Significant Customers which the Company can now reasonably foresee would materially adversely affect the business of the Company and its Subsidiaries or prevent the conduct of the business of the Company and its Subsidiaries after the consummation of the transactions contemplated by this Agreement in essentially the same manner in which it has heretofore been conducted.

(b) Except as set forth in Section 5.20(b) of the Company Disclosure Letter, since January 1, 2013, (a) no supplier who, in the 12-month period ended March 31, 2014 was one of the five (5) largest suppliers of goods or services to the Company, based on amounts paid or payable during such period (each a "**Significant Supplier**") has notified the Company or any of its Subsidiaries that such Significant Supplier intends to, or is considering or has otherwise threatened

to, cancel, terminate, modify or fail to renew any Contract to which such Significant Supplier or any of its Affiliates, on the one hand, and the Company or any of its Subsidiaries, on the other hand, is a party and (b) there exists no actual or, to the knowledge of the Company, threatened termination, material cancellation or material limitation of, or any material modification or change in, the business relationship of the Company and its Subsidiaries with any Significant Supplier or group of Significant Supplier of the Company and its Subsidiaries. Except as set forth in Section 5.20(b) of the Company Disclosure Letter, there exists no present or future condition or state of facts or circumstances involving Significant Suppliers which the Company can now reasonably foresee would materially adversely affect the business of the Company and its Subsidiaries or prevent the conduct of the business of the Company and its Subsidiaries after the consummation of the transactions contemplated by this Agreement in essentially the same manner in which it has heretofore been conducted.

Section 5.20 Export Compliance.

To the knowledge of the Company, (i) there are no pending or threatened material claims against any Acquired Company with respect to such Acquired Company's import, export or re-export transactions; and (ii) there are no actions, conditions or circumstances pertaining to the Acquired Companies' import, export or re-export transactions that would reasonably be expected to give rise to any future material claims against any of the Acquired Companies (including investigations of or voluntary disclosures by any Acquired Company).

Section 5.21 Receivables.

All the accounts receivable of the Acquired Companies that are reflected in the Company Filing Documents represent the then valid obligations of customers of the Acquired Companies arising from bona fide transactions entered into in the ordinary course of business.

Section 5.22 Inventories.

The inventories of the Acquired Companies (including raw materials, supplies, work-in-process, finished goods and other materials) (i) are reflected in the financial statements of the Company that are included in the Company Filing Documents at the lower of cost or net realizable value in accordance with GAAP and (ii) are of a quality and quantity useable in the ordinary course of business. The inventory obsolescence policies of the Acquired Companies are appropriate for the nature of the Company's business, the reserve for inventory obsolescence reflected in the financial statements of the Company that are included in the Company Filing Documents fairly reflects the amount of obsolete inventory as of the date thereof.

Section 5.23 Brokers.

No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement.

Section 5.24 Fairness Opinion.

The Company Board has received the written opinion of May 22, 2013, to the effect that, as of the date of such opinion and subject to the assumptions, limitations and qualifications reflected therein, the consideration to be paid pursuant to the Merger is fair, from a financial point of view, to the Company's shareholders. As of the date of this Agreement, such opinion has not been rescinded, repudiated or, except as set forth therein, qualified.

Section 5.25 Affiliate Transactions.

Except as set forth on Section 5.26 of the Company Disclosure Letter, no material transaction, direct or indirect, exists between the Company or any Subsidiary of the Company, on the one hand, and any officer, director or other Affiliate (other than any Subsidiary of the Company) of the Company, on the other hand.

Section 5.26 Disclosure.

None of the representations or warranties of the Company contained herein, none of the information contained in the Company Disclosure Letter, and none of the other information or documents furnished to Merger Sub or any of its representatives by the Company or its representatives pursuant to the terms of this Agreement is, to the knowledge of the Company, false or misleading in any material respect or omits to state a fact herein or therein necessary to make the statements herein or therein not misleading in any material respect.

Section 5.27 Disclaimer of Other Representations and Warranties.

The representations and warranties set forth in Article V are the only representations and warranties made by the Company with respect to the Company or any other matter relating to the transactions contemplated by this Agreement. Except as specifically set forth in Article V, the Company makes no warranty, express or implied, as to any matter whatsoever relating to the Acquired Companies or any other matter relating to the transactions contemplated by this Agreement including as to (a) the operation of the business of the Company after the Closing in any manner or (b) the probable success or profitability of the business of the Company after the Closing.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF MERGER SUB

Merger Sub represents and warrants to the Company as of the date hereof and as of the Closing Date as follows as follows:

Section 6.1 Organization, Standing and Power.

Merger Sub (a) is an exempted company incorporated with limited liability, validly existing and in good standing under the Laws of the jurisdiction of its incorporation, (b) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted and (c) is duly qualified or licensed to do business and is in

good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for any such failures that individually or in the aggregate, have not had, and would not reasonably be expected to have, a Merger Sub Material Adverse Effect. For purposes of this Agreement, "**Merger Sub Material Adverse Effect**" means any event, change, circumstance, effect or state of facts that, either individually or in the aggregate: (A) is materially adverse to (1) the business, operations, properties, assets, liabilities, condition (financial or otherwise) or results of operations of Merger Sub, other than the effects of any event, change, circumstance, effect or state of facts arising out of or attributable to changes in general economic, business, regulatory, political or market conditions or in national or global financial markets (only to the extent such effects do not, individually or in the aggregate, disproportionately impact Merger Sub), or (2) the announcement or pendency of this Agreement and the transactions contemplated hereby, or the performance of this Agreement and the transactions contemplated hereby, or (B) prevents or materially impedes, interferes with, hinders or delays the performance by Merger Sub of its obligations under this Agreement or the consummation of its obligations under this Agreement or the consummation of the Offer, the Merger, or the other transactions contemplated hereby.

Section 6.2 Authority.

Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Merger Sub and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by the board of directors of Merger Sub, and except for the shareholders' approval no other corporate proceedings on the part of Merger Sub are necessary to approve this Agreement, or to consummate the transactions contemplated hereby, subject, in the case of the consummation of the Merger, to the filing with the Investment Commission, the Hsinchu Science Park Administration, and the Cayman Islands Registrar of Companies. This Agreement has been duly executed and delivered by Merger Sub and, assuming the due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Merger Sub, enforceable against it in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity).

Section 6.3 No Conflict; Consents and Approvals.

The execution, delivery and performance of this Agreement by the Merger Sub, and the consummation by the Merger Sub of the transactions contemplated hereby, do not and will not, except, in the case of clauses (ii) through (iv), as would not reasonably be expected to have a Material Adverse Effect, (i) conflict with or violate the Company Constituent Documents, (ii) assuming that all consents, approvals and authorizations have been obtained and all filings have been made, conflict with or violate any Law or any settlement, injunction or award of any Governmental Authority, in each case that is applicable to the Merger Sub, (iii) result in any breach or violation of, or constitute a default (or an event which with notice or lapse of time or both would become a default), or result in a right of guaranteed payment or loss of a benefit under, or give rise to any right of termination,

cancellation, amendment or acceleration of, any Contract to which the Merger Sub is a party or by which the Merger Sub is bound, or (iv) result in the creation of any Lien upon any of the assets of the Merger Sub.

Section 6.4 Ownership of Merger Sub.

The authorized share capital of Merger Sub consists of 10,000,000,000 shares, 3,021,465,271.47 of which are validly issued and outstanding. All of the issued and outstanding share capital of Merger Sub is, and at the Closing Date will be, owned directly or indirectly by Parent.

Section 6.5 Available Funds.

At the Closing Date Merger Sub will have all funds necessary for the payment of the aggregate Merger Consideration, and sufficient for the satisfaction of all of Merger Sub's obligations under this Agreement, and, in connection therewith, no portion of the aggregate Merger Consideration will be financed with the proceeds from indebtedness for borrowed funds (other than internal loans from its Affiliates, all of which are available as of the date hereof and will be available on the Closing Date).

Section 6.6 Independent Investigation.

The Merger Sub hereby acknowledges and agrees that other than the representations and warranties set forth in Article V, none of the Company, any of their Affiliates, or any of their respective officers, directors, employees, agents, representatives or stockholders make or have made any representation or warranty, express or implied, at law or in equity, as to any matter whatsoever.

ARTICLE VII
COVENANTS AND ADDITIONAL AGREEMENTS

Section 7.1 Conduct of Business of the Company.

(a) The Company covenants and agrees that, during the period from the date hereof until the Transition Date, except (i) as contemplated by this Agreement, (ii) as required by applicable Law or (iii) if Merger Sub otherwise provides its prior consent in writing, the Company shall conduct, and shall use commercially reasonable efforts to (u) ensure that each of the Acquired Companies conducts, its business in the ordinary course of business consistent with past practice, (v) preserve intact in all material respects its current business organization, (w) maintain in all material respects its assets and properties in good repair and condition, (x) maintain in all material respects its relations with customers, suppliers and other Persons with which it has material business relations, (y) keep available the services of its present key officers and key employees, and (z) use commercially reasonable efforts to keep in full force all insurance policies.

(b) Without limiting the generality of Section 7.1(a), between the date of this Agreement and the Transition Date, except (i) specifically permitted elsewhere by this Agreement

or (ii) if Merger Sub provides its prior consent in writing (which shall not be unreasonably withheld, conditioned or delayed), the Company shall not, and shall not permit any of its Subsidiaries to:

(i) amend the articles of incorporation or bylaws (or equivalent organizational documents) of any Acquired Company except for the proposed amendments submitted to the 2014 annual shareholders' meeting which have been disclosed to the Merger Sub as of the date hereof.

(ii) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization except for the Merger contemplated by this Agreement;

(iii) issue, deliver or sell any security of any Acquired Company or grant any equity-based compensation award, other than the issuance of Shares by the Company to its employees upon the valid exercise of outstanding equity awards;

(iv) declare, set aside or pay any dividend or other distribution, payable in cash, stock, property or any combination thereof, with respect to any of its capital stock (except for any dividend or distribution by a Subsidiary of the Company to the Company or to other Subsidiaries, and the distribution in the form of cash to the shareholders, the employees and the directors, as applicable, resolved to be distributed in the 2014 annual shareholders' meeting);

(v) split, subdivide or reclassify its capital stock, or enter into any agreement with respect to the voting of any of the Company's capital stock or other securities or the capital stock or other securities of a Subsidiary of the Company;

(vi) make any capital expenditure, or any commitment with respect thereto, other than (A) pursuant to Contracts disclosed to Merger Sub prior to the date hereof, or (B) in the ordinary course of business consistent with past practice in an amount not to exceed NT$3,000,000 individually or NT$5,000,000 in the aggregate;

(vii) (A) acquire (whether by merger, consolidation or acquisition of stock or assets or otherwise) any corporation, partnership or other business organization or division thereof or any material equity interest therein or (B) sell, lease or license any property or any assets, other than (1) sales or dispositions of inventory and other assets in the ordinary course of business consistent with past practice, (2) incoming technology licenses for technology other than CAD systems, each in an amount not to exceed NT$3,000,000 individually, (3) pursuant to Contracts in effect on the date hereof , or (4) the lease for the new office in Shenzhen;

(viii) enter into any material joint venture or partnership;

(ix) enter into any transactions with any Affiliate that would be required to be disclosed on Section 5.26 of the Company Disclosure Letter if engaged in prior to the date hereof;

(x) (A) make any loans, advances or capital contributions to, or investments in, any other Person (other than a Subsidiary of the Company), (B) incur any indebtedness for borrowed money or issue any debt securities other than the renewal of Contracts for indebtedness disclosed in Section 7.1(x) of the Company Disclosure Letter, or (C) assume, guarantee, endorse or otherwise become liable or responsible for the obligations of another Person (other than the Company or any of its Subsidiaries), other than pursuant to Contracts in effect on the date hereof;

(xi) except to the extent required by applicable Law, or the terms of any Company Plan, and except as contemplated by Section 7.7, or as to the annual increase of monthly salary in July 2014 with a budget of no more than 3% of current total monthly salary for all employees and the Officers of all the Acquired Companies which is specifically Disclosed in Section 5.11(a) of the Company Disclosure Letter as part of the Company Plan (A) increase the compensation or benefits of any current or former director, officer or consultant of the Company or any of its Subsidiaries , (B) increase the compensation or benefits of any current or former employee (other than an officer) of the Company or any of its Subsidiaries, (C) except for the restricted shares awards plan and the proposed distribution of employee cash bonuses to be submitted to the June 13rd, 2014 Company shareholders' meeting, amend, terminate or adopt any compensation or benefit plan including any pension, retirement, profit-sharing, bonus or other employee benefit or welfare benefit plan or employment or severance agreement, (D) accelerate the vesting of, or the lapsing of restrictions with respect to, any stock options or other stock-based compensation, (E) fail to make any required contributions under any Company Plan, (F) hire or terminate the employment, or modify the contractual relationship of, any officer whose position is VP or higher ("**Officer**") or consultant of the Company or any of its Subsidiaries except for termination due to the officer's material breach of its employment agreement and/or in violation of applicable laws, (G) hire or terminate the employment, or modify the contractual relationship of, any employee (other than an Officer) of the Company or any of its Subsidiaries except for termination due to the occurrence of the events provided under Article 12 of the Labor Standard Act, hiring employees which, given effect of such hiring, will result in the total number of employees of all Acquired Companies not to exceed the total number of the employees as shown in the Company Disclosure Letter by 15 persons or more and/or hiring employee to whom the offer letter has been sent before the date hereof, or (H) pay any other compensation or remuneration to (or make any advance with respect to) any Person for his or her service as a director of any Acquired Company for any period commencing on or after January 1, 2014 other than the regular payment to the independent directors, the payments to directors pursuant to the resolution adopted in 2014 annual shareholders' meeting in an amount consistent with past practice and/or the payment of traffic allowances to director(s) who attend the board meeting;

(xii) make any material change in its methods of accounting, except as may be appropriate to conform to changes in statutory or regulatory accounting rules or GAAP or regulatory requirements with respect thereto;

(xiii) (A) fail to file any Tax Return when due (after giving effect to any extensions of time in which to make such filings), (B) prepare or file any Tax Return inconsistent with past practice or, on any such Tax Return, take any position, make any election, or adopt any

method that is inconsistent with positions taken, elections made or methods used in preparing or filing similar Tax Returns in prior periods, in each case except as required by applicable Law, or (C) make, change or rescind any Tax election, settle or compromise any Tax liability or refund, file any amended Tax Return involving an amount of additional Taxes, or waive or extend the statute of limitations in respect of Taxes (other than pursuant to extensions of time to file Tax Returns) in each case, except as required by applicable Law;

(xiv) (A) pay, discharge, waive, settle, compromise, release or satisfy any claim, liability or obligation that is not an Action, other than payment, discharge, waiver, settlement, release or satisfaction of claims reflected or reserved against in full in the balance sheet of March 31, 2014 or incurred since the date of the Balance Sheet of March 31, 2014 in the ordinary course of business consistent with past practice, and other than the satisfaction or performance by the Company and its Subsidiaries of their respective obligations in accordance with the applicable terms thereof under Contracts in effect on the date hereof and Contracts permitted under this Section 7.1 to be entered into on or following the date hereof or (B) other than in connection with the ordinary course settlement of disputes with customers, accelerate, discount, factor, reduce, sell (for less than its face value or otherwise), transfer, assign or otherwise dispose of, in full or in part, any accounts receivable owed to the Company or any of its Subsidiaries, with or without recourse, including any rights or claims associated therewith that are not, and could not in the aggregate be, material to the Company;

(xv) enter into, amend in any material respect or terminate (other than a termination in accordance with its terms) any Material Contract or Contract that would be a Material Contract had it not been amended or early terminated;

(xvi) effectuate a layoff as defined in the Protective Act for Mass Redundancy of Employees;

(xvii) create any Subsidiary;

(xviii) forgive any loans to any employees, officers or directors of the Company or any of its subsidiaries;

(xix) enter into or amend any collective bargaining agreements;

(xx) except as required by applicable laws or GAAP, revalue in any materials respect any of its properties or assets including without limitation writing-off notes or accounts receivable other than in the ordinary course of business consistent with past practice;

(xxi) except as required by applicable laws or this Agreement, convene any regular or special meeting (or any adjournment or postponement thereof) of the shareholders of the Company other than the June 13rd, 2014 Company shareholders' meeting; or

(xxii) agree to, authorize, or enter into any Contract obligating it to take any of the actions described in Sections 7.1(b)(i) through 7.1(b)(xvii).

(c) From and after the date hereof and prior to the Transition Date, and except as may otherwise be required by applicable Law, the Company shall not, and shall cause its Subsidiaries not to, directly or indirectly, take any action that is intended to or that would reasonably be expected to (a) materially adversely affect or materially delay the ability of Company or any of its Subsidiaries to obtain any necessary approvals of any Governmental Authority necessary for the consummation of the transactions contemplated hereby or to perform its covenants or agreements set forth herein, (b) cause its representations and warranties set forth in Article IV to be untrue in any material respect or (c) otherwise, individually or in the aggregate, have a Material Adverse Effect.

Section 7.2 Conduct of Business of Merger Sub Pending the Merger.

From and after the date hereof and prior to the Closing Date, and except as may otherwise be required by applicable Law, Merger Sub agrees that it shall not, directly or indirectly, take any action that is intended to or that would reasonably be expected to (a) materially adversely affect or materially delay the ability of Merger Sub to obtain any necessary approvals of any Governmental Authority necessary for the consummation of the transactions contemplated hereby or to perform its covenants or agreements set forth herein, (b) cause its representations and warranties set forth in Article VI to be untrue in any material respect or (c) otherwise, individually or in the aggregate, have a Merger Sub Material Adverse Effect.

Section 7.3 Acquisition Proposals.

(a) Following the execution hereof, the Company shall, and shall cause its Subsidiaries and its and their respective Representatives (as defined below) to (i) immediately cease and cause to be terminated all existing discussions or negotiations with any Person conducted heretofore with respect to any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal, and (ii) request the prompt return or destruction of all confidential information previously furnished by it or on its behalf. The Company shall not terminate, waive, amend, release or modify in any respect any provision of any confidentiality or standstill agreement to which any Acquired Company or any of its Affiliates is a party with respect to any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal, and shall use reasonable best efforts to enforce, to the fullest extent permitted by applicable Law, the provisions of any such agreement, including obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof.

(b) The Company shall not, and shall cause its Subsidiaries not to, and shall cause its and their respective directors, officers, employees, investment bankers, financial advisors, attorneys, accountants or other advisors, agents and representatives (collectively, "**Representatives**") not to, directly or indirectly, (i) solicit, initiate, or knowingly encourage or knowingly facilitate the submission of any inquiries or any proposal or offer constituting, related to or that would reasonably be expected to lead to an Acquisition Proposal, (ii) furnish any non-public information regarding any of the Acquired Companies to any Person (other than Merger Sub and Merger Sub's or the Company's Representatives acting in their capacity as such) in connection with or in response to an Acquisition Proposal or any proposal, inquiry or offer that would reasonably

be expected to lead to an Acquisition Proposal, (iii) engage in discussions or negotiations with any Person (other than Merger Sub) with respect to any Acquisition Proposal or any proposal, inquiry or offer that would reasonably be expected to lead to an Acquisition Proposal (other than to state that they currently are not permitted to have discussions), (iv) approve or recommend any Acquisition Proposal or any proposal, inquiry or offer that would reasonably be expected to lead to an Acquisition Proposal, (v) make or authorize any recommendation in support of any Acquisition Proposal or any proposal, inquiry or offer that would reasonably be expected to lead to an Acquisition Proposal or (vi) enter into any letter of intent or agreement in principle or any Contract providing for, relating to or in connection with any Acquisition Proposal or any proposal, inquiry or offer that would reasonably be expected to lead to an Acquisition Proposal.

(c) The Company shall promptly (and in any event within twenty-four (24) hours) advise Merger Sub in writing of the receipt of any Acquisition Proposal or any inquiry, proposal or offer that could reasonably be expected to lead to an Acquisition Proposal (including the identity of the Person making or submitting such Acquisition Proposal or inquiry, proposal or offer, and the material terms and conditions thereof) that is made or submitted by any Person prior to the Closing Date. The Company shall keep Merger Sub informed, on a current basis, of the status of, and any financial or other changes in, any such Acquisition Proposal, inquiry, proposal or offer, including providing Merger Sub copies of any correspondence related thereto and proposed documents to effect such Acquisition Proposal.

(d) Subject to the terms of Section 7.3(e), neither the Company Board nor any committee thereof shall (i) (A) withhold, withdraw or qualify (or modify in a manner adverse to Merger Sub) the Company Recommendation, the Company Board Determination or the approval of this Agreement, the Merger or any of the other transactions contemplated hereby, take any action (or permit or authorize the Company or any of its Subsidiaries or any of its or their respective Representatives to) inconsistent with the Company Board Determination or the Company Recommendation or resolve, agree or propose to take any such actions (each such action set forth in this Section 7.3(d)(i)(A) being referred to herein as an "**Adverse Recommendation Change**") or (B) adopt, approve, recommend, propose publicly to adopt, approve or recommend, any Acquisition Proposal, (ii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other agreement constituting an Acquisition Proposal, or (iii) resolve or propose publicly to take any such actions.

(e) The Company Board or any committee may effect an Adverse Recommendation Change at any time prior to obtaining the Company Shareholder Approval, if and only if:

(i) (A) the Company Board has received a *bona fide*, written Acquisition Proposal that did not result from a breach of Section 7.3(a), (b) or (c) that constitutes a Superior Proposal, (B) neither the Company nor any of its Subsidiaries shall have breached or violated (or be deemed, pursuant to the terms hereof, to have breached or violated) the provisions of Section 7.3(a), (b) or (c) in any material respect, (C) the Company Board determines in good faith (after consultation with outside legal counsel and after considering in good faith any counter-offer or

proposal made by Merger Sub pursuant to clause (E) below), that, in light of such Superior Proposal, the failure of the Company Board to effect an Adverse Recommendation Change would reasonably be expected to result in a breach of its fiduciary duties to shareholders of the Company under ROC Law, (D) prior to effecting such Adverse Recommendation Change, the Company Board shall have given Merger Sub at least five (5) Business Days' notice thereof (which notice shall include the most current version of such definitive agreement and, to the extent not included therein, the material terms and conditions of such Superior Proposal and the identity of the Person making such Superior Proposal) and the opportunity to meet with the Company Board and its outside legal counsel during such five (5) Business Day period, all with the purpose and intent of enabling Merger Sub and the Company to discuss in good faith a modification of the terms and conditions of the Offer and/or this Agreement so as to obviate the need for the Company Board to effect an Adverse Recommendation Change, and (E) Merger Sub shall not have made, within five (5) Business Days after receipt of the Company's written notice of its intention to effect an Adverse Recommendation Change, a counter-offer or proposal that the Company Board reasonably determines in good faith, after consultation with a financial advisor of nationally recognized standing and its outside legal counsel, is at least as favorable to shareholders of the Company as such Superior Proposal (it being understood that any change to the financial terms or any other material term or condition of such Superior Proposal shall require a new notice pursuant to clause (D) above and a new five (5) Business Day period pursuant to this clause (D)); or

(ii) (A) an "Intervening Event" as defined below shall have occurred and be continuing, (B) the Company Board determines in good faith (after consultation with outside legal counsel and after considering in good faith any counter-offer or proposal, if any, made by Merger Sub pursuant to clause (D) below), that, in light of such Intervening Event, the failure of the Company Board to effect an Adverse Recommendation Change would reasonably be expected to result in a breach of its fiduciary duties to shareholders of the Company under ROC Law, (C) prior to effecting such an Adverse Recommendation Change, the Company Board shall have given Merger Sub at least five (5) Business Days' notice thereof (which notice shall include a written explanation of the Company Board's basis and rationale for proposing to effect such Adverse Recommendation Change) and the opportunity to meet with the Company Board and its outside legal counsel during such five (5) Business Day period, all with the purpose and intent of enabling Merger Sub and the Company to discuss in good faith a modification of the terms and conditions of the Offer and/or this Agreement so as to obviate the need for the Company Board to effect Adverse Recommendation Change, and (D) Merger Sub shall not have made, within five (5) Business Days after receipt of the Company's written notice of its intention to effect an Adverse Recommendation Change, a counter-offer or proposal that the Company Board reasonably determines in good faith, after consultation with a financial advisor of nationally recognized standing and its outside legal counsel, would obviate the need for the Company Board to effect such Adverse Recommendation Change. For these purposes, an "**Intervening Event**" means a material fact, event, change, development or set of circumstances occurring or existing after the date of this Agreement with respect to the business, operations, financial condition or results of operations of either the Parent or the Merger Sub or of the Company or any of its Subsidiaries (and not relating in any way to (x) an Acquisition Proposal or (y) any fluctuation in the market price or trading volume of the Shares, in and of itself) that was not known to the Company Board nor reasonably foreseeable by the Company Board as of or prior to the date of this Agreement.

(f) Any action inconsistent in any material respect with any provisions set forth in this Section 7.3 that is taken by any Representative of the Company or any of its Subsidiaries that if taken or not taken by the Company would constitute a breach of this Section 7.3 shall be deemed a breach of this Agreement by the Company.

Section 7.4 Shareholders' Meeting.

As soon as practicable after the Minimum Shares are tendered during the Offer Period or expiration of the Offer Period, whichever comes first, the Company, acting through the Company Board, shall (i) take all action necessary to duly call, give notice of, convene and hold a meeting of its shareholders for the purpose(s) of (x) seeking to obtain the Company Shareholder Approval (the "**Company Shareholders' Meeting**"), and, (y) in the case that the Minimum Shares are tendered during the Offer Period, of electing of all the directors of the Company before expiration of their term of office, (ii) solicit the Company Shareholder Approval that the shareholders of the Company vote in favor of the adoption and approval of this Agreement and the Merger and the election of all the directors, if applicable, and (iii) in the case that the Minimum Shares are tendered during the Offer Period, convene one or more Company Board meetings, each at a date designated by Merger Sub after consultation with the Company, to adopt the resolution to appoint the officer(s) nominated by Merger Sub to participate in and manage the business and finance operations of the Company. Merger Sub shall vote all Shares acquired in the Offer (and all Shares otherwise owned by Merger Sub or any of its Affiliates as of the applicable record date) in favor of the adoption and approval of this Agreement and the Merger in accordance with applicable Law at the Company Shareholders' Meeting.

Section 7.5 Access to Information; Confidentiality.

(a) From the date hereof to the Closing Date or the earlier termination of this Agreement, upon reasonable prior notice and to the reasonable extent at the Company’s discretion and to the extent permissible by applicable Laws, the Company shall, and shall use reasonable best efforts to cause its Subsidiaries, officers, Directors and Representatives to, afford to Merger Sub and its Representatives reasonable access without undue interruption during normal business hours, consistent with applicable Law, to the Company's officers, employees, properties, offices, other facilities and books and records, and shall furnish Merger Sub and its Representatives with all financial, operating and other data and information as Merger Sub and its Representatives shall reasonably request. In particular, but without limitation, upon reasonable prior notice and to the reasonable extent at the Company’s discretion, from and after the date of this Agreement, Merger Sub and its agents, contractors and representatives shall have the right and privilege of entering upon all properties leased or occupied by the Company or any of its Subsidiaries and of reviewing the Company's books and records regarding such properties from time to time as needed to make any inspections, evaluations, surveys or tests which Merger Sub may deem necessary or appropriate. Merger Sub and the Company agree to mutually cooperate in testing the Company's IT systems for compatibility and interoperability with Parent's IT systems and in other like matters as reasonably requested by Parent prior to Closing. Merger Sub will hold and treat and will cause its Representatives to hold and treat in confidence all documents and information concerning the Company and its Subsidiaries furnished to Merger Sub in connection with the transactions

contemplated by this Agreement in accordance with the confidentiality agreement between the Company and Parent dated as of December 3, 2013 (the "**Confidentiality Agreement**"), which Confidentiality Agreement shall remain in full force and effect in accordance with its terms.

Section 7.6 Further Action; Efforts.

Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Law to consummate the transactions contemplated by this Agreement, and no party hereto shall fail to take or cause to be taken any action that would reasonably be expected to prevent, impede or materially delay the consummation of the transactions contemplated hereby. In furtherance and not in limitation of the foregoing, each party hereto agrees to make, if required, appropriate filings under any Antitrust Law, with the expenses associated with such filings to be equally split between Merger Sub and the Company, as promptly as practicable and in any event within five Business Days of the date hereof, and to take all other actions necessary, proper or advisable to obtain as promptly as practicable the expiration or termination of the applicable waiting periods and any necessary approvals, consents or authorizations under the applicable Antitrust Laws.

Section 7.7 Employment and Employee Benefits Matters; Other Plans.

(a) The Merger Sub shall use its reasonable efforts to communicate with and to keep employees of the Company or any of its Subsidiaries. Without limiting any additional rights that any individual who is an employee of the Company or any of its Subsidiaries at the Closing Date (each, a "**Company Employee**") may have under any Company Plan, except as otherwise agreed in writing between Merger Sub and a Company Employee, the Surviving Corporation and each of its Subsidiaries shall employ Company Employees who accept an offer of employment from the Surviving Corporation pursuant to terms and conditions no less favorable than those provided to such employees immediately prior the Closing. Subject to the foregoing, nothing in this Agreement shall prevent the amendment or termination of any Company Plan in accordance with the Company Plan's terms or interfere with the Surviving Corporation's right or obligation to make such changes as are necessary to conform to or comply with applicable Law.

(b) As of and after the Closing Date, Surviving Corporation will give Company Employees who accept an offer of employment from the Surviving Corporation full credit for purposes of eligibility and vesting and benefit accruals (but not for purposes of post-employment welfare benefits or severance benefits), under any employee compensation, incentive and benefit (including vacation) plans, programs, policies and arrangements maintained for the benefit of Company Employees as of and after the Closing Date by the Surviving Corporation (each a "**Merger Sub Plan**") for the Company Employees' service with the Company, its Subsidiaries and their predecessor entities to the same extent recognized under similar Company Plans immediately prior to the Closing Date; provided that the foregoing shall not apply to the extent it would result in a duplication of benefits.

(c) Nothing herein shall be deemed to be a guarantee of employment for any Company Employee or any other employee of the Surviving Corporation or any of its Subsidiaries

for any period of time, or to restrict the right of the Surviving Corporation or any of its Subsidiaries, to terminate or cause to be terminated any employee at any time for any or no reason with or without notice. Notwithstanding the foregoing provisions of this Section 7.7, nothing contained herein, whether expressed or implied, (i) shall be treated as an amendment or other modification of any Company Plan or any Merger Sub Plan or any other employee benefit plan, program or arrangement or the establishment of any employee benefit plan, program or arrangement or (ii) shall limit the right of Surviving Corporation or any of their respective Subsidiaries to amend, terminate or otherwise modify (or cause to be amended, terminated or otherwise modified) any Company Plan, Merger Sub Plan or any other employment benefit plan, program or arrangement following the Closing Date in accordance with its terms. Merger Sub and the Company acknowledge and agree that all provisions contained in this Section 7.7 are included for the sole benefit of Merger Sub, the Company, the Surviving Corporation and their respective Subsidiaries, and that nothing herein, whether express or implied, shall create any third party beneficiary or other rights (A) in any other Person, including any employees, former employees, any participant in any employee benefit plan, program or arrangement (or any dependent or beneficiary thereof) of the Company or the Surviving Corporation or any of their respective Subsidiaries or (B) to continued employment with the Company, the Surviving Corporation, or any of their respective Subsidiaries or continued participation in any employee benefit plan, program or arrangement.

Section 7.8 Indemnification of Officers and Directors.

(a) For a period of 6 years after the Transition Date, Merger Sub shall cause the Surviving Corporation to maintain in effect the Company's current directors' and officers' liability insurance covering each Person currently covered by the Company's directors' and officers' liability insurance policy (an accurate and complete copy of which has been heretofore made available to Merger Sub) for acts or omissions occurring prior to the Closing Date; provided, however, that: (i) the Surviving Corporation may substitute therefore one or more "tail" policies, the material terms of which, including coverage and amount, are no less favorable in any material respect to such directors and officers than the material terms of the Company's existing policies as of the date hereof, or (ii) Merger Sub may request that the Company obtain such extended reporting period coverage under the Company's existing insurance programs (to be effective as of the Closing Date); and provided, further, that in no event shall the Surviving Corporation be required to pay aggregate annual premiums for insurance under this Section 7.8(a) in excess of 150% of the amount of the aggregate premiums paid by the Company for 2013 for such purpose, it being understood that the Surviving Corporation shall nevertheless be obligated to provide such coverage as may be obtained for such 150% amount.

(b) In the event that the Surviving Corporation or any of its successors or assigns shall: (i) consolidate with or merge into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfer all or substantially all its properties and assets to any Person, then, and in each such case, the Surviving Corporation shall cause proper provision to be made so that its successors and assigns assume the obligations set forth in this Section 7.8.

(c) The provisions of this Section 7.8 shall survive consummation of the Merger and are intended to be for the benefit of, and will be enforceable by, each Person currently covered by the Company's directors' and officers' liability insurance policy, his or her heirs and his or her legal representatives.

Section 7.9 Notification of Certain Matters.

The Company and Merger Sub shall promptly notify each other of (a) the discovery of any fact or circumstance that, or the occurrence or non-occurrence of any event the occurrence or non-occurrence of which, would cause or is reasonably likely to result in any of the conditions to the Merger set forth in Article VIII not being satisfied or satisfaction of those conditions being materially delayed; provided, however, that the delivery of any notice pursuant to this Section 7.9 shall not (i) cure any breach of, or non-compliance with, any other provision of this Agreement or (ii) limit the remedies available to the party sending or receiving such notice; and (b) the receipt of any written communication received from any Person alleging that a material consent of such Person is or may be required in connection with the transactions contemplated by this Agreement or from any Governmental Authority in connection with the transactions contemplated by this Agreement.

Section 7.10 Litigation.

The Company shall provide Merger Sub with prompt notice of and copies of all proceedings and correspondence relating to any Action against the Company, any of its Subsidiaries or any of their respective directors or officers arising out of or relating to this Agreement or the transactions contemplated by this Agreement. To the extent such Action is by any shareholder of the Company, the Company shall give Merger Sub the opportunity to participate in the defense or settlement of any such shareholder Action, shall give due consideration to Merger Sub's advice with respect to such shareholder Action and shall not settle or offer to settle any such Action without the prior written consent of Merger Sub, which shall not be unreasonably withheld, conditioned or delayed.

Section 7.11 Public Announcements.

Prior to the Closing Date, Merger Sub and the Company shall consult with each other before issuing any press release or otherwise making any public statement or disclosure with respect to the Merger, the Offer, or any of the transactions contemplated hereby and neither shall issue any such press release or make any such public statement or disclosure without the prior approval of the other (which approval shall not be unreasonably withheld, conditioned or delayed), except as may be required by applicable Law, court process or by obligations pursuant to any listing agreement with any national securities exchange or national securities quotation system, in which case the party proposing to issue such press release or make such public statement or disclosure shall first, to the extent practicable, consult with the other party about, and allow the other party reasonable time to comment in advance on, such press release, public announcement or disclosure. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

Section 7.12 Transfer Taxes.

Except as provided for in Section 4.4, all stock transfer, real estate transfer, documentary, stamp, recording and other similar Taxes (including interest, penalties and additions to any such Taxes) incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by either the Company or the Surviving Corporation in accordance with the applicable Laws. The Company and Merger Sub shall cooperate in the preparation, execution, and filing of all Tax Returns, questionnaires or other documents with respect to such Taxes.

Section 7.13 Company Stock Options.

(a) Immediately after the date of this Agreement, upon request from the Merger Sub, the Company shall provide further information to the Merger Sub in relation to the Company Plan pursuant to which such Company Stock Option was granted and the execution status thereof.

(b) On or prior to the Closing Date, to the extent permissible by applicable Law, the Company Board shall meet and adopt such resolutions, and the Company shall take all necessary actions to approve the amendments to the relevant documents of the Company to ensure that the arrangements described in Section 4.2 can be consummated at the Closing. Promptly following the taking of such actions, the Company shall, after consultation with Merger Sub, deliver to the holders of Company Stock Options appropriate notices setting forth such holders' rights pursuant to the Company Equity Plans and this Agreement. Merger Sub and its counsel shall be given a reasonable opportunity to review and comment on any such notices prior to the mailing thereof to the holders of Company Stock Options, and the Company shall give reasonable and good faith consideration to all additions, deletions, changes or other comments suggested by Merger Sub and its counsel.

Section 7.14 Merger Sub Regulatory Approvals.

Following the commencement of the Offer, Merger Sub shall, and if applicable, Merger Sub shall cause its Affiliates to, promptly prepare and file all necessary documentation as soon as practicable, and shall use their reasonable best efforts to obtain as soon as practicable, all domestic and foreign regulatory approvals, corporate actions and third party consents and waivers necessary to be obtained by Merger Sub to consummate the Offer and Merger. Merger Sub agrees to provide updates of the progress of such approvals upon request of the Company.

Section 7.15 Insurance Policies.

The Company shall take all actions reasonably necessary to ensure that all of its current and legacy insurance policies are available for the benefit of the Surviving Corporation, including with respect any instances where an occurrence and/or claim takes place before the Closing and is not made known until after the Closing.

Section 7.16 Non-Solicitation.

Unless otherwise agreed to in writing by the Company, during the period commencing on the date of this Agreement and ending on (i) the Closing Date or, (ii) in the event this Agreement is terminated, eighteen (18) months after the date on which this Agreement is terminated, the Merger Sub will not, directly or indirectly, for itself or on behalf of or in conjunction with any other Person, call upon any Person, who is, at the time the Person is called upon, an employee of any of the Acquired Company for the purpose or with the intent of soliciting such employee away from or out of the employ of the Acquired Company, or employ or offer employment to any Person who is employed by the Acquired Company, unless such Person (i) responds to any advertisement that is not specifically directed to employees of the Acquired Company, (ii) approaches the Merger Sub on his/her own initiative, or (iii) is solicited by a third party recruiter that did not receive such Person's name or the Company name from the Parent or Merger Sub.

Section 7.17 Employee Matters.

The Company shall terminate, effective as of the day immediately preceding the date the Company becomes a member of the same controlled group of corporations as the Parent, meaning the date that 80% of Company Stock has been tendered and accepted for payment in the Offer, (the "**401(k) Termination Date**"), any and all 401(k) plans maintained by the Company or any of its Subsidiaries, unless Merger Sub provides written notice to the Company that such 401(k) plan(s) shall not be terminated. The Company shall provide Merger Sub evidence that the 401(k) plan(s) of the Company and its Subsidiaries have been terminated pursuant to resolutions of the Company Board or the board of directors of its Subsidiaries, as applicable. The form and substance of such resolutions shall be subject to the reasonable review and approval of Merger Sub, which shall not be unreasonably withheld or delayed. As soon as practicable following the 401(k) Termination Date, Parent shall permit all continuing employees who were eligible to participate in any 401(k) plan maintained by the Company or any of its Subsidiaries immediately prior to the 401(k) Termination Date to participate in Parent's 401(k) plan, subject to the terms and conditions of the Parent 401(k) plan, and shall permit each such participating continuing employee to elect to transfer his or her account balance when distributed from any terminated 401(k) plan maintained by the Company or any of its Subsidiaries, including any outstanding participant loans from such 401(k) plans, to Parent's 401(k) plan, except to the extent accepting such transfers would adversely affect the tax-qualified status of the Parent 401(k) plan. Nothing contained herein shall be construed as requiring Parent, the Company or any of their Affiliates to continue any specific benefit plan or program, or to continue the employment of any specific person. No provision of this Agreement shall be construed to create any right to any compensation or benefits on the part of any continuing employee or other future, present or former employee of Merger Sub, Parent, the Company or their respective Affiliates. Section 7.17 is intended to be for the sole benefit of the parties to this Agreement, and nothing in Section 7.17 or elsewhere in this Agreement shall be deemed to confer upon any other person any rights or remedies hereunder or make any employee or other service provider of the parties or their respective Subsidiaries a third party beneficiary of this Agreement. No provision of this Agreement shall operate as an amendment to any benefit plan maintained by the Company or Merger Sub, Parent or their respective Affiliates. Further, Parent, Merger Sub, the Company and their respective Affiliates retain the right to amend or terminate their benefit plans

at any time and from time to time, subject to the provisions of this Agreement and the terms of such plans.

ARTICLE VIII
CONDITIONS PRECEDENT

Section 8.1 Conditions to Each Party's Obligations to Effect the Merger.

The respective obligations of each party to effect the Merger are subject to the satisfaction at or prior to the Closing Date of each of the following conditions any and all of which may be waived, in whole or in part, by Merger Sub and the Company, to the extent permitted by applicable Law:

(a) Antitrust Laws. If required under applicable Antitrust Laws, the applicable waiting period (and any extension thereof) under such Antitrust Laws in respect of the transactions contemplated hereby shall have expired or been terminated.

(b) Shareholder Approval. The Company Shareholder Approval (if required by applicable Law) shall have been obtained.

(c) Regulatory Approvals. All necessary regulatory approvals for the consummation of the Merger contemplated hereby shall have been obtained.

(d) No Injunctions. No Governmental Authority of competent jurisdiction shall have issued or promulgated an order, decree, injunction or ruling or taken any other action enjoining or otherwise preventing the consummation of the Merger.

(e) No Illegality. No applicable Law shall have been enacted, entered, enforced, issued or put in effect that prohibits or makes illegal the consummation of the Merger.

(f) No Termination. This Agreement shall not have been terminated in accordance with its terms.

(g) Representations and Warranties. Each of the representations and warranties of the other party set forth in this Agreement shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all respects on and as of the Transition Date, or the Closing Date, in case there is no Transition Date before the Closing Date.

(h) Covenants and Agreements. The other party shall have performed or complied with in all material respects each of its obligations, covenants and agreements under this Agreement required to be performed or complied with at or prior to the Transition Date, or the Closing Date, in case there is no Transition Date before the Closing Date

Section 8.2 Conditions to Merger Sub's Obligations to Effect the Merger.

The obligations of Merger Sub to effect the Merger are subject to the satisfaction at or prior to the Closing Date of the following condition, which may be waived, in whole or in part, by Merger Sub, to the extent permitted by applicable Law:

(a) No Material Adverse Effect. No condition, event, change, circumstance, effect, state of facts or development shall have occurred or exist that, individually or in the aggregate with any other event, change, circumstance, effect, state of facts or development, has had or could reasonably be expected to have a Material Adverse Effect at or prior to the Transition Date, or the Closing Date, in case there is no Transition Date before the Closing Date. The determination as to whether a Material Adverse Effect has occurred shall not be affected or deemed waived by reason of any investigation made by or on behalf of Merger Sub (including by any of its Representatives) or by reason of the fact that Merger Sub or any of its Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate.

(b) Proprietary Inventions or Confidentiality Agreement. Each of the Company Employees and Company consultants shall have entered into a proprietary inventions and confidentiality agreement with the Company or its Subsidiary in form and substance reasonably satisfactory to Merger Sub.

ARTICLE IX
TERMINATION, AMENDMENT AND WAIVER

Section 9.1 Termination.

This Agreement may be terminated and the Merger may be abandoned at any time prior to the Closing, whether before or after receipt of the Company Shareholder Approval, provided that the party desiring to terminate this Agreement pursuant to this Section 9.1 (other than pursuant to Section 9.1(a)) shall give notice of such termination to the other party, only as follows:

(a) by mutual written agreement of Merger Sub and the Company; or

(b) by either Merger Sub or the Company, if (i) the Company Shareholders' Meeting shall have been held and the Company Shareholder Approval shall not have been obtained thereat or at any adjournment or postponement thereof, or (ii) any applicable Law makes consummation of the Merger illegal or any Governmental Authority of competent jurisdiction shall have issued a final and non-appealable order enjoining, restraining or otherwise prohibiting the consummation of the Merger; or

(c) by either Merger Sub or the Company, if the Closing shall not have occurred on or before March 31, 2015 (the "**Termination Date**"); provided, however, that the right to terminate this Agreement pursuant to this Section 9.1(c) shall not be available to any party hereto whose failure to fulfill any obligation under this Agreement has been the principal cause of or resulted in the failure of the Closing to have occurred on or before the Termination Date; or

(d) by the Company, in the event (A) of a breach of any covenant or agreement on the part of Merger Sub set forth in this Agreement or (B) that any of the representations and

warranties of Merger Sub set forth in this Agreement shall have been inaccurate when made or shall have become inaccurate as of the Transition Date, or the Closing Date, in case there is no Transition Date before the Closing Date; provided, however, that notwithstanding the foregoing, in the event that such breach by Merger Sub or such inaccuracies in the representations and warranties of Merger Sub are curable by Merger Sub through the exercise of commercially reasonable efforts, then the Company shall not be permitted to terminate this Agreement pursuant to this Section 9.1(d) until the earlier to occur of (1) thirty (30) calendar days after delivery of written notice from the Company to Merger Sub of such breach or inaccuracy, as applicable or (2) the Termination Date (it being understood that the Company may not terminate this Agreement pursuant to this Section 9.1(d) if such breach or inaccuracy by Merger Sub is cured within such period or if the Company is then in material breach of any covenant, agreement, representation or warranty contained in this Agreement; or

(e) by the Company, prior to obtaining the Company Shareholder Approval, provided that (A) in accordance with Section 7.3(e)(i), the Company Board has effected an Adverse Recommendation Change, and (B) immediately prior to the termination of this Agreement, the Company pays to Merger Sub the Termination Fee Amount payable pursuant to Section 9.3(b)(ii); or

(f) by Merger Sub, in the event (A) of a breach (or deemed breach pursuant to the terms of this Agreement) of any covenant or agreement on the part of the Company set forth in this Agreement (without regard to whether such breach or violation results in an Acquisition Proposal) or (B) that any representation or warranty of the Company set forth in this Agreement shall have been inaccurate when made or shall have become inaccurate; provided, however, that notwithstanding the foregoing, in the event that such breach by the Company or such inaccuracies in the representations and warranties of the Company are curable by the Company through the exercise of commercially reasonable efforts, then Merger Sub shall not be permitted to terminate this Agreement pursuant to this Section 9.1(e) until the earlier to occur of (1) thirty (30) calendar days period after delivery of written notice from the Merger Sub to the Company of such breach or inaccuracy, as applicable, or (2) the Termination Date (it being understood that Merger Sub may not terminate this Agreement pursuant to this Section 9.1(f) if such breach or inaccuracy by the Company is cured within such period or if Merger Sub is then in material breach of any covenant, agreement, representation or warranty contained in this Agreement; or

(g) by Merger Sub, in the event that a Triggering Event shall have occurred. For all purposes of and under this Agreement, a "**Triggering Event**" shall be deemed to have occurred if, prior to the Closing, any of the following shall have occurred: (A) the Company shall have breached or violated (or be deemed, pursuant to the terms thereof, to have breached or violated) the provisions of Section 7.3 in any material respect (without regard to whether such breach or violation results in an Acquisition Proposal); (B) the Company Board or any committee thereof shall have for any reason effected an Adverse Recommendation Change; (C) the Company Board or any committee thereof shall have for any reason approved, or recommended that shareholders of the Company approve, any Acquisition Proposal or Acquisition Transaction (whether or not a Superior Proposal); (D) the Company shall have entered into a letter of intent, memorandum of understanding or Contract accepting or agreeing to discuss or negotiate any Acquisition Proposal

or Acquisition Transaction (whether or not a Superior Proposal); or (E) following the date any bona fide Acquisition Proposal is first publicly announced, the Company Board shall have failed to issue a press release that unconditionally reaffirms the Company Recommendation within five (5) Business Days after Merger Sub delivers to the Company a request in writing to do; or

(h) by the Merger Sub, in the event that a Material Adverse Effect has occurred after the date of this Agreement.

Section 9.2 Effect of Termination.

In the event of termination of this Agreement, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Merger Sub or the Company, except that the Confidentiality Agreement and the provisions of Section 7.11 (*Public Announcements*), this Section 9.2, Section 9.3 (*Fees and Expenses*), Section 9.4 (*Amendment or Supplement*), Section 9.5 (*Extension of Time; Waiver*) and Article X (*General Provisions*) of this Agreement shall survive the termination hereof. Notwithstanding the foregoing, neither Merger Sub nor the Company shall be relieved or released from any liabilities or damages (which the parties acknowledge and agree shall not be limited to reimbursement of expenses or out-of-pocket costs, but shall not include punitive damages, lost profits or consequential, exemplary, indirect, incidental or special damages) arising out of its intentional breach of any provision of this Agreement or any other agreement delivered in connection herewith or any fraud.

Section 9.3 Fees and Expenses.

(a) General. Except as may otherwise be agreed to hereunder or in other writing by the parties, all fees and expenses incurred in connection with this Agreement, the Offer, the Merger and the other transactions contemplated hereby shall be borne and timely paid by the party incurring such fees or expenses, whether or not the Offer or the Merger is consummated.

(b) Company Payment.

(i) In the event that this Agreement is terminated pursuant to Section 9.1(g), within five (5) Business Days after demand by Merger Sub, the Company shall pay to Merger Sub a fee equal to NT$343,182,610 (the "**Termination Fee Amount**") by wire transfer of immediately available funds to an account or accounts designated in writing by Merger Sub.

(ii) In the event that this Agreement is terminated pursuant to Section 9.1(e), prior to and as a condition to the effectiveness of such termination, the Company shall pay to Merger Sub a fee equal to the Termination Fee Amount by wire transfer of immediately available funds to an account or accounts designated in writing by Merger Sub.

(iii) The Company shall pay to Merger Sub a fee equal to the Termination Fee Amount, by wire transfer of immediately available funds to an account or accounts designated in writing by Merger Sub, within five (5) Business Days after demand by Merger Sub, in the event that (A)(1) this Agreement is terminated pursuant to Section 9.1(b)(i) or Section 9.1(c) (other than the termination is due to the non-satisfaction of conditions set forth in Section 8.1(c), (d), (e), or

due to termination by Company as permitted by Sections 8.1 (g) and (h)) or (2) this Agreement is terminated pursuant to Section 9.1(f), (B) following the execution and delivery of this Agreement and prior to such termination of this Agreement (in the case of any termination referred to in clause (A)(1) above) or prior to the breach or inaccuracy that forms the basis for the termination of this Agreement (in the case of any termination referred to in clause (A)(2) above), an Acquisition Proposal shall have been publicly announced or shall have become publicly known, or shall have been communicated or otherwise made known to the Company, and (C) within twelve (12) months following such termination of this Agreement, either an Acquisition Transaction (whether or not the Acquisition Transaction referenced in the preceding clause (B)) is consummated or the Company enters into a definitive agreement with respect to an Acquisition Transaction (whether or not the Acquisition Transaction referenced in the preceding clause (B)) (for purposes of this Section 9.3(b)(iii), the references to "10%" in the definition of "Acquisition Transaction" shall be deemed to be a reference to "50%.")

(c) Merger Sub Payment. In the event that this Agreement is terminated pursuant to Section 9.1(d), Merger Sub shall within five (5) Business Days after demand by the Company pay to the Company a fee equal to the Termination Fee Amount by wire transfer of immediately available funds to an account or accounts designated in writing by the Company.

Section 9.4 Amendment or Supplement.

This Agreement may be amended, modified or supplemented by the parties hereto by action taken or authorized by written agreement of the parties hereto (by action taken by their respective boards of directors, if required) at any time prior to the Closing Date, whether before or after the Company Shareholder Approval has been obtained; provided, however, that after the Company Shareholder Approval has been obtained, no amendment shall be made that pursuant to applicable Law requires further approval or adoption by the shareholders of the Company without such further approval or adoption. This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing specifically designated as an amendment hereto, signed on behalf of each of the parties in interest at the time of the amendment.

Section 9.5 Extension of Time; Waiver.

At any time prior to the Closing Date, the parties may (by action taken or authorized by their respective boards of directors, if required), to the extent permitted by applicable Law, (a) extend the time for the performance of any of the obligations or acts of the other party or parties hereto, as applicable, (b) waive any inaccuracies in the representations and warranties of the other party or parties set forth in this Agreement or any document delivered pursuant hereto or (c) subject to applicable Law, waive compliance with any of the agreements or conditions of the other party or parties contained herein; provided, however, that after the Company Shareholder Approval has been obtained, no waiver may be made that pursuant to applicable Law requires further approval or adoption by the shareholders of the Company without such further approval or adoption. Any agreement on the part of a party to any such waiver shall be valid only if set forth in a written instrument executed and delivered by a duly authorized officer on behalf of such party or parties, as applicable. No failure or delay of any party in exercising any right or remedy hereunder shall

operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. Except as otherwise provided herein, the rights and remedies of the parties hereunder are cumulative and are not exclusive of any rights or remedies which they would otherwise have hereunder.

ARTICLE X
GENERAL PROVISIONS

Section 10.1 Survival of Representations, Warranties and Covenants.

None of the representations, warranties, covenants or agreements in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Transition Date, other than those covenants or agreements of the parties which by their terms specifically apply, or are to be performed as a whole or in part, after the Transition Date, including, without limitation, the covenants and agreements set forth in Section 7.7. Notwithstanding the foregoing, this Section 10.1 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Transition Date or relates to delivery of the Payment Fund in full on the terms and subject to the conditions set forth in this Agreement.

Section 10.2 Notices.

All notices or other communications required or permitted hereunder shall reference this Agreement, shall be in writing in the English language, shall be delivered personally, by facsimile (with confirming copy sent by one of the other delivery methods specified herein) or by overnight courier or by certified, registered or express air mail, postage prepaid, and shall be deemed given when so delivered personally, or when so received by facsimile or courier, or, if mailed, five Business Days after the date of mailing, as follows:

(i) if to Merger Sub or the Surviving Corporation, to:

Microchip Technology (Barbados) II Incorporated
2355 W. Chandler Blvd.
Chandler, AZ 85224USA
Attention: Kim van Herk
Facsimile: 1- 480-792-4112

with copy (which shall not constitute notice) to:

Lee and Li, Attorneys-at-Law
9F, No. 201, Tun Hua N. Road
Taipei 105, Taiwan, R. O. C.
Attention: James Chan, Esq.
Facsimile: 886-2-2713-3966

(ii) if to the Company, to:

ISSC Technologies Corp.
5F., No.5, Industry East 7th Road, Hsinchu Science Park
Hsinchu City 30077
ROC
Attention: Max Wu
Facsimile: 886-3-5778501

with copy (which shall not constitute notice) to:

Chen & Lin, Attorneys-at-Law
12F, No. 205, Tun Hua N. Road
Taipei 105, Taiwan, R. O. C.
Attention: Jennifer Wang, Esq.
Facsimile: 886-2-2514-7510

Section 10.3 Interpretation.

When a reference is made in this Agreement to a Section, Article or Exhibit, such reference shall be to a Section, Article or Exhibit of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement or in any Exhibit are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Exhibit but not otherwise defined therein shall have the meaning set forth in this Agreement. All Exhibits annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth herein. The words "include," "includes" and "including" and words of similar import when used in this Agreement will mean "include, without limitation," "includes, without limitation" or "including, without limitation," unless otherwise specified.

Section 10.4 Entire Agreement.

This Agreement (including the Exhibits hereto) constitutes the entire agreement with respect to the subject matter hereof and thereof, and supersede all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings among the parties with respect to the subject matter hereof and thereof.

Section 10.5 Governing Law.

This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the ROC, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of Laws principles of the ROC.

Section 10.6 Dispute Reeolution.

(a) Each of the parties irrevocably agrees that any dispute, legal action or proceeding arising out of or relating to this Agreement (an "**Arbitrable Dispute**") brought by any party or its successors or assigns shall be brought and determined to be settled by binding arbitration. Notwithstanding the preceding sentence, nothing in this Section 10.6 shall prevent a party from seeking specific performance as contemplated by Section 10.8 from a court of competent jurisdiction pending settlement of any Arbitrable Dispute.

(b) Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration in Singapore administered by the Singapore International Arbitration Centre ("**SIAC**") in accordance with the Arbitration Rules of the Singapore International Arbitration Centre ("**SIAC Rules**") for the time being in force, which rules are deemed to be incorporated by reference in this clause. However, in all events, the provisions contained herein shall govern over any conflicting rules which may now or hereafter be contained in the SIAC Rules. Any judgment upon the award rendered by the arbitrator shall be entered in any court having jurisdiction over the subject matter thereof, including, without limitation, the Taipei District Court. The arbitrator shall have the authority to grant any equitable and legal remedies that would be available if any judicial proceeding was instituted to resolve an Arbitrable Dispute. The final decision of the arbitrator (the "**Final Decision**"), as entered by a court of competent jurisdiction, will be furnished by the arbitrator to the parties in writing and will constitute a final, conclusive and non-appealable determination of the issue in question, binding upon the parties, and an order with respect thereto may be entered in any court of competent jurisdiction, including, without limitation, the Taipei District Court.

(c) Any such arbitration will be conducted before a single arbitrator who will be compensated for his or her services at a rate to be determined by the parties or by SIAC, but based upon reasonable hourly or daily consulting rates for the arbitrator in the event the parties are not able to agree upon his or her rate of compensation.

(d) The arbitrator shall be mutually agreed upon by Merger Sub and the Company. If the parties are unable to agree within twenty (20) days following submission of the dispute to SIAC by one of the parties, SIAC will have the authority to select an arbitrator from a list of arbitrators who satisfy the criteria set forth in Section 10.6(e).

(e) No arbitrator shall have any past or present family, business or other relationship with Merger Sub, Parent, the Company, or any Affiliate, Subsidiary, director or officer thereof, unless following full disclosure of all such relationships, Merger Sub and the Company agree in writing to waive such requirement with respect to an individual in connection with any Arbitrable Dispute.

(f) The arbitrator shall be instructed to hold an up to eight hour, one day hearing regarding the disputed matter within sixty (60) days of his designation and to render an award (without written opinion) no later than ten (10) days after the conclusion of such hearing, in each case unless otherwise mutually agreed in writing by Merger Sub and the Company.

(g) No discovery other than an exchange of relevant documents may occur in any arbitration commenced under the provisions hereof. The parties agree to act in good faith to promptly exchange relevant documents.

(h) Merger Sub and the Company will each pay 50% of the initial compensation to be paid to the arbitrator in any such arbitration and 50% of the costs of transcripts and other normal and regular expenses of the arbitration proceedings; provided, however, that: (i) the prevailing party in any arbitration will be entitled to an award of attorneys' fees and costs; and (ii) all costs of arbitration, other than those provided for above, will be paid by the losing party, and the arbitrator will be authorized to determine the identity of the prevailing party and the losing party.

(i) The arbitrator chosen in accordance with these provisions will not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or any other provisions contained in this Agreement.

(j) Except as specifically otherwise provided herein, arbitration will be the sole and exclusive remedy of the parties for any Arbitrable Dispute or any other dispute arising out of or relating to this Agreement.

Section 10.7 Assignment; Successors.

Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, as a whole or in part, by operation of Law or otherwise, by any party without the prior written consent of the other parties, and any such assignment without such prior written consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 10.8 Enforcement.

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the Company and Merger Sub shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court having jurisdiction over the subject matter thereof, including, without limitation, the Taipei District Court, this being in addition to any other remedy to which such party is entitled at Law or in equity and this right shall include the right of the Company to cause the Offer, the Merger and the transactions contemplated hereby to be consummated on the terms and subject to the conditions thereto set forth in this Agreement. To the extent permitted by laws, each of the parties hereby further waives any requirement under any Law to post security as a prerequisite to obtaining equitable relief and any defenses in any action for specific performance, including the defense that a remedy at Law would be adequate. If any party brings any Action to enforce specifically the performance of the terms and provisions hereof by any other party, the Termination Date shall automatically be extended by (x) the amount of time during which such Action is pending, plus 20 Business Days or (y) such other time period established by the court presiding over such Action.

Section 10.9 Currency.

All references to "US$" in this Agreement refer to United States dollars. All references to "NT$" in this Agreement refer to New Taiwan Dollars.

Section 10.10 Severability.

Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 10.11 Counterparts.

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party.

Section 10.12 Electronic Signature.

This Agreement may be executed by facsimile signature or electronically scanned signature and such signatures shall constitute an original for all purposes.

Section 10.13 No Presumption Against Drafting Party.

Each of Merger Sub and the Company acknowledges that each party to this Agreement has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of Law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is hereby expressly waived.

Section 10.14 Effect of Prior Knowledge.

The representations, warranties and covenants of the Company shall not be affected or deemed waived by reason of any investigation made by or on behalf of Merger Sub (including by any of its Representatives) or by reason of the fact that Merger Sub or any of its Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate.

Section 10.15 Plan of Merger.

The parties hereto agree to execute and file with the Cayman Islands Registrar of Companies a plan of merger, substantially in the form set forth on Exhibit A hereto, and other documents in accordance with applicable Laws of the Cayman Islands. In the event of any conflict or inconsistency between this Agreement and the document executed or filed hereof, this Agreement shall prevail.

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

Microchip Technology (Barbados) II Incorporated

By: /s/: James Eric Bjornholt
Name: James Eric Bjornholt
Title: Director

ISSC Technologies Corp.

By: /s/: Max Wu
Name: Max Wu
Title: Chairman of the Board

Exhibit A

Form of the Plan of Merger to be Filed with the Cayman Islands Registrar of Companies

Plan of Merger

1. Parties:

   (a) Microchip Technology (Barbados) II Incorporated, an exempted company incorporated with limited liability with company number 250343 and in existence under the laws of the Cayman Islands with its registered office at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands and having a branch office in the Republic of China (the "**ROC**") ("**Surviving Company**"); and

   (b) ISSC Technologies Corp., a company incorporated and in existence under the laws of the ROC having its registered office at 5F., No.5, Industry East 7th Road, Hsinchu Science Park, Hsinchu City 30077, ROC (the "**Merging Company**")

2. Capital and shares: Upon the execution of this Plan (i) the authorized share capital of Surviving Company is US$10,000,000,000, divided in 10,000,000,000 shares with a par value of US$1.00 per share, of which 3,021,456,271.47 shares have been issued, and (ii) the authorized capital of the Merging Company is NT$1,000,000,000, divided into 100,000,000 shares with a par value of NT$10 per share, and the paid-in capital of the Company is NT$673,377,040, divided into 67,337,704 shares with a par value of NT$10 per share

3. Effective date: The closing of the Merger (the "**Closing**") shall take place as soon as practicable on a date as mutually agreed upon by the board of directors of each of the Surviving Company and the Merging Company. The date on which the Closing occurs is referred to in this Agreement as the "**Closing Date**").

4. Terms and conditions of the Merger:

   (a) The Merger shall have the effects set forth in the relevant provisions of applicable laws. Without limiting the generality of the foregoing, and subject thereto, at the Closing Date, all the property, rights, privileges, powers and franchises of the Merging Company shall vest in the Surviving Company and be transferred to the Taiwan branch office of the Surviving Company, and all debts, liabilities and duties of the Merging Company shall become the debts, liabilities and duties of the Surviving Company and be transferred to the Taiwan branch office of the Surviving Company.

   (b) Each share of the Merging Company issued and outstanding immediately prior to the Closing Date shall thereupon be converted automatically into, and shall thereafter represent, the right to receive NT$143 in cash without interest, and subject to deduction

for any required withholding tax and any adjustment (the "**Merger Consideration**"). From and after the Closing Date, all such shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of such a share shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such share. Each share of the Merging Company owned by the Surviving Company or by the Merging Company immediately prior to the Closing Date shall automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

5. The rights and restrictions attaching to the shares in the Surviving Company: Not applicable, as each share of the Merging Company issued and outstanding immediately prior to the Closing Date shall be converted automatically into the right to receive the Merger Consideration in cash without interest, and the shareholder of the Merging Company will not receive any shares in the Surviving Company as a result of the Merger.

6. Memorandum and Articles of Association: The memorandum of association and articles of association of the Surviving Company immediately prior to Merger shall be its memorandum of association and articles of association after the Merger. No amendments will be made to the memorandum and articles of association of the Surviving Company.

INDEX OF DEFINED TERMS

EXHIBIT 2.2

TENDER AGREEMENT

Between

Microchip Technology (Barbados) II Incorporated

and

Directors, Certain Officers and Certain Shareholders of ISSC Technologies Corp.

Dated as of May 22, 2014

TENDER AGREEMENT

THIS TENDER AGREEMENT (this "**Agreement**"), dated as of May 22, 2014, is being entered into by and between Microchip Technology (Barbados) II Incorporated, an exempted company incorporated with limited liability with company number 250343 and in existence under the laws of the Cayman Islands with its registered office at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, and having a branch office in Taiwan at 30F-1, No.8, Min-Chuan 2nd Road, Kaohsiung, 80661, ROC ("**Merger Sub**") and those persons listed in Exhibit A attached hereto (each, a "**Seller**"; collectively the "**Sellers**").

RECITALS

WHEREAS, Merger Sub is an indirect subsidiary of Microchip Technology Incorporated, a company incorporated and in existence under the laws of state of Delaware ("**Parent**"), with a principal place of business at 2355 West Chandler Blvd., Chandler, Arizona, USA;

WHEREAS, it is proposed that Merger Sub will commence a public tender offer pursuant to applicable laws and regulations of the Republic of China (the "**ROC**") to purchase up to all of the issued and outstanding shares of common stock (the "**Shares**") of ISSC Technologies Corp., a company incorporated and in existence under the laws of the ROC (the "**Company**"), for the offer price of NT$143 per share (the "**Offer**");

WHEREAS, it is also proposed that, following the Offer, Merger Sub will merge with the Company, with Merger Sub as the surviving company (the "**Merger**"), on the terms and subject to the conditions set forth in the Merger Agreement to be entered into by and between Merger Sub and the Company as of the date hereof (the "**Merger Agreement**");

WHEREAS, as condition to the willingness of Merger Sub to further pursue the Offer and the Merger, each Seller agrees to sell, or cause to be sold, that certain number of the Shares of the Company as set forth opposite such Seller's name in Exhibit A hereof (its "**Sales Shares**", collectively with the Sales Shares of other Sellers the "**Sales Shares**") to Merger Sub through tendering its Sales Shares in the Offer or the subsequent purchase to support the Offer and the Merger on the terms and conditions set forth herein;

WHEREAS, it is the understanding between the parties hereto that to induce the Sellers to enter into this Agreement, Parent has agreed to guarantee the performance of the obligations of Merger Sub under this Agreement by executing a guarantee letter as of the date hereof (the "**Guarantee**"); and

WHEREAS, the Sellers and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with the Offer and the Merger as specified herein.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby Merger Sub and the Sellers hereby agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

For all purposes of and under this Agreement, the following capitalized terms shall have the following respective meanings:

"**Action**" means any claim, action, suit, arbitration, audit, formal investigation or proceeding.

"**Adjusted Offer Price**" means the Offer Price being adjusted as following: in the event that the Company (i) issues cash dividend, or (ii) changes the number of Shares issued and outstanding as a result of a stock split, stock dividend, recapitalization, subdivision, reclassification, combination or similar transaction with respect to the outstanding Shares, and in each case the record date therefor shall be prior to the record date of the Merger, in the case of (i) above, the Offer Price reduced by the amount of cash dividend per share on a dollar-for-dollar-basis, and in the case of (ii) above, the Offer Price appropriately, equitably and proportionately adjusted in light of such stock split, stock dividend, recapitalization, subdivision, reclassification, combination or similar transaction.

"**Affiliate**" of any Person means any other Person that, at the time of determination, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such first Person.

"**Articles of Incorporation**" means memorandum and articles of association, articles or certificate of incorporation, bylaws and other equivalent constituent documents.

"**Board**" means the board of directors of the Company.

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which banks in the United States or Taiwan or the GTSM, are authorized by Law or executed order to be closed.

"**Chairman**" means the Chairman of the Board of the Company.

"**Centralized Custody Rules**" means the Rules Relating to Article 3, Paragraph 1, Subparagraph 4 of the GTSM Rules Governing the Review of Securities for Trading on the GTSM (財團法人中華民國證券櫃檯買賣中心證券商營業處所買賣有價證券審查準則第三條第一項第四款有關規定).

"**control**" (including the terms "controlled," "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise.

"**Governmental Authority**" means any federal, state, provincial, county or local governmental, regulatory or administrative authority, agency or commission or any judicial or arbitral body in the ROC or otherwise.

"**GTSM**" means the GreTai Securities Market.

"**knowledge**" means (i) with respect to a Seller that is a natural person, the actual knowledge of the Seller, (ii) with respect to a Seller that is an entity, the actual knowledge of any Person who is an officer or director of such entity.

"**Law**" means any statute, law, ordinance, rule, regulation, order, judgment or decree.

"**Lien**" means mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, non-statutory preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

"**Lock-Up Shares**" means the number of the Sales Shares under centralized custody with the TDCC which cannot be tendered during the Offer Period pursuant to the Centralized Custody Rule, as set forth in Exhibit A.

"**Option**" means any option to purchase Shares granted under any employee, consultant, representative or director stock option, stock purchase or equity compensation plan, arrangement or agreement of the Company or any of its Subsidiaries that is exercisable and outstanding immediately prior to the completion of the Merger.

"**Person**" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any Governmental Authority.

"**Prospectus**" means the prospectus of the Offer substantially in the form attached hereto in Exhibit B, together with any amendments thereof, which Merger Sub may make in its absolute discretion.

"**Related Person**" of any Person who is an individual means any other Person that is an immediate family member or a second-degree relative of the first Person or his/her spouse or former spouse.

"**Restricted Shares**" means the number of the Lock-Up Shares, plus the number of Sales Shares owned by Max Wu and James Lin which will not be tendered during the Offer Period as agreed to by the parties concerned, as set forth in Exhibit A.

"**Subsidiary**" of any Person shall mean (i) a company more than fifty percent (50%) of the combined voting power of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one of more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries thereof, (ii) any other Person of which stock or other equity interests having combined voting power to elect more than fifty percent (50%) of the board of directors, directly or indirectly, by such Person or by one of more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries thereof, or (iii) any other Person in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership or power to direct the policies, management and affairs thereof.

"**TDCC**" means the Taiwan Depository & Clearing Corporation.

ARTICLE II
AGREEMENT TO TENDER; VOTING

Section 2.1 Terms of the Offer.

(a) Merger Sub will publicly announce the Offer on May 22, 2014, make applicable filings with the Taiwan Financial Supervisory Commission (the "**FSC**") for the Offer by May 23, 2014, and commence the Offer on May 26, 2014. It being understood that Merger Sub's success in such efforts requires (i) the tendering of Shares by the shareholders of the Company in the Offer; (ii) cooperation from the Sellers, (iii) the convocation of a Board meeting by the Company pursuant to Section 2.4(a) hereof; and (iv) any other conditions that are permissible under applicable Laws of the ROC. The terms and conditions of the Offer are set out in the Prospectus. The Offer price per Share is NT$143 (the "**Offer Price**").

(b) The initial expiration of the Offer shall be on the 50th day after the commencement of the Offer (the period of the Offer, as it may be extended pursuant to Section 2.1(c) below, shall be referred to as the "**Offer Period**"). If Merger Sub was ordered by the FSC to amend the terms of the Offer according to the applicable Law, Merger Sub shall promptly do so, subject to seeking the relief described in Section 8.1(c), and re-submit the Offer Documents and make public announcement of the same, the Offer Period should be re-started to count from the date Merger Sub re-submits the Offer Documents and makes the public announcement.

(c) As a condition for consummation of the Offer, the minimum number of the Shares tendered shall not be less than 27,300,429 (the "**Minimum Shares**"). If during the Offer Period any of the conditions of the Offer shall have not been satisfied or waived by Merger Sub (if permitted hereunder), subject to seeking the relief described in Section 8.1(c), Merger Sub shall extend the Offer for an additional 30 days or such shorter period as permitted by applicable Law. So long as the Minimum Shares is tendered within the Offer Period and all conditions of the Offer have been satisfied or waived by Merger Sub (if permitted hereunder), the closing of the Offer (the "**TO Closing**" and the date of TO Closing, the " **TO Closing Date**") will take place within seven (7) Business Days after the expiration of the Offer Period.

(d) On or before the date of commencement of the Offer, Merger Sub shall (i) file with the FSC the documents relating to the Offer as required by applicable Law or the FSC, which shall contain the Prospectus and forms of the related letters of transmittal, public announcement and other ancillary documents and instruments required by applicable Law pursuant to which the Offer will be made, each in substantially the form attached hereto as Exhibit B (collectively with any supplements, amendments and exhibits thereto, and all deliveries, mailings and notices required by applicable Law, the "**Offer Documents**") and (ii) cause the Offer Documents to be disseminated to the holders of Shares and/or be posted to the Market Observation Post System to the extent required by applicable Law.

Section 2.2 Acceptance of the Offer.

Subject to Section 2.3 with respect to the sales of the Restricted Shares, each Seller agrees to accept the Offer with respect its Sale Shares owned or represented by it as listed opposite such Seller's name in Exhibit A hereof and tender all such Sale Shares pursuant to the Offer launched in accordance with the applicable Laws of the ROC. Such tender shall be made within five (5) Business Days after commencement of the Offer. The Sellers shall not withdraw or cause to be withdrawn any Sale Shares tendered pursuant to the Offer unless this Agreement terminates pursuant to Section 8.1 hereof. Each Seller further agrees that it will cooperate with Merger Sub, as and to the extent reasonably requested by Merger Sub, to effect the sale of the Sale Shares to Merger Sub pursuant to the Offer as contemplated by this Agreement.

Section 2.3 Subsequent Purchase.

(a) With respect to the Restricted Shares, to the extent permissible by Law, each owner of the Restricted Shares shall have the right, but not the obligation, to sell the Restricted Shares to Merger Sub in the public market and/or off the market within five (5) Business Days after the Lock-Up Shares are released by the TDCC pursuant to Centralized Custody Rules, at the Adjusted Offer Price, by giving prior written notice to Merger Sub. Merger Sub agrees to purchase such Restricted Shares at the Adjusted Offer Price through an off the market transaction, block trade transaction or such other transaction as agreed upon between the parties concerned with a view to reasonably mitigating possible tax implications on the respective Seller(s) without detrimenting the Merger Sub.

(b) To facilitate the owners of the Restricted Shares with the right set forth in Section 2.3(a) above, the Sellers and Merger Sub agree and acknowledge that the record date for the Merger shall be set at a day at least seven (7) Business Days after the Lock-Up Shares are released by the TDCC pursuant to Centralized Custody Rules; provided, however, that if the Merger Sub fails to purchase any Restricted Shares as requested by the Seller(s) pursuant to Section 2.3(a) for any reason attributable to the Merger Sub, the record date for the Merger shall be postponed until the title of such Restricted Shares are transferred to the Merger Sub at the Adjusted Offer Price. Notwithstanding anything set forth herein to the contrary, in case there is any change of the Laws or enforcement or interpretation thereof, resulting in the failure to effect the sale of any Restricted Shares as requested by the Seller(s) pursuant to Section 2.3(a), the parties concerned will enter into good faith discussions to work out reasonable alternatives such that the Seller(s) would be able to receive substantially the same economic value as if such Sellers were to sell such Restricted Shares in the public market and/or off the market, and without detrimenting the Merger Sub.

Section 2.4 Necessary Corporate Actions.

Within three (3) Business Days after launching the Offer, the Sellers shall use their best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise (i) to facilitate the review by the special committee of the Company of the Offer, and (ii) subject to the fulfillment of fiduciary duties under applicable Laws, to cause the Board of directors of the Company to recommend the holders of

Shares to accept the Offer and tender their Shares to Merger Sub pursuant to the Offer. The Sellers agree that they will not provide any negative comments on the Offer and the Merger.

(a) The Sellers shall cause the Chairman to convene a Board meeting immediately after the Minimum Shares are tendered during the Offer Period or expiration of the Offer Period, whichever comes first, to adopt the following resolutions as soon as practicable: (i) to approve the proposal with respect to the Merger; (ii) in the case that the Minimum Shares are tendered during the Offer Period, to approve the proposal for election of all the directors of the Company before expiration of their term of office; and (iii) to call a special meeting of shareholders (the "**Shareholders Meeting**") at a date designated by Merger Sub after consultation with the Chairman, for submission of the proposals set forth in item (i) and (ii) of this Section 2.4(b) to the Shareholders Meeting for final approval and for election of all the directors of the Company before expiration of their term of office, as applicable.

(b) To the extent that any Seller (x) holds any Sales Shares (including the Restricted Shares) or any other Shares on record as of the date of the Shareholders Meeting, or (y) represents any Sales Shares (including the Restricted Shares) or any other Shares as of the date of the Shareholders Meeting, such Seller shall use its best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise (i) to cause the Shareholders Meeting to be lawfully convened, (ii) to approve at the Shareholders Meeting the proposals set forth in items (i), (ii) and (iii) of Section 2.4(b) above, and (iii) to elect at the Shareholders Meeting the director candidates nominated by Merger Sub as the directors of the Company.

(c) In the case that the Minimum Shares are tendered during the Offer Period, prior to the Transition Date (as defined in Section 6.1(a) hereof) the Sellers shall cause the Chairman to convene one or more Board meetings, each at a date designated by Merger Sub after consultation with the Chairman, to adopt the resolution to appoint the officer(s) nominated by Merger Sub to participate in and manage the business and finance operations of the Company.

Section 2.5 Voting Commitment and Proxy.

To the extent permissible by the Law and that any Seller (a) holds any Sales Shares (including the Restricted Shares) or any other Shares on record as of the date of the Shareholders Meeting, or (b) represents any Sales Shares (including the Restricted Shares) or any other Shares as of the date of the Shareholders Meeting, such Seller agrees to vote any Shares owned or represented by it in the manner set forth in Section 2.4 in order to consummate the transactions contemplated in this Agreement and the Merger Agreement. Each Seller further agrees to grant, or caused to be granted, proxy of the Shares owned or represented by it to the person(s) designated by Merger Sub once the Shareholders Meeting has been convened by the Board pursuant to Section 2.4. At the request of Merger Sub and to the extent permissible by the Law, each Seller agrees to cooperate with Merger Sub to jointly solicit proxies from public shareholders of the Company to exercise their voting rights in the manner set forth in Section 2.4. Further, each Seller shall, or shall cause its representatives on the Board of directors to appear at each Board meeting or otherwise to be counted as present thereat for purposes of calculating a quorum and vote in the manner set forth in Section 2.4 in order to consummate the transactions contemplated hereby and thereby to the extent permissible by Law.

ARTICLE III
THE MERGER

The parties hereto acknowledge and agree that notwithstanding anything to the contrary contained in this Agreement or the Merger Agreement and disregarding the success or completion of the Offer, Merger Sub and the Company shall proceed with the Merger pursuant to the Merger Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Each Seller severally, and not jointly, represents and warrants to Merger Sub as of the date hereof and as of the TO Closing Date as follows:

Section 4.1 Authorization; Validity of Agreement; Necessary Action.

(a) In case of a Seller is a natural person, such Seller (i) is a natural person with the full legal capacity in his/her country, and (ii) has all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. In case of a Seller is a legal entity, such Seller (x) is a corporation or other entity validly existing and in good standing (with respect to jurisdictions that recognize such concept) under the Laws of the jurisdiction of its incorporation or organization, (y) has all requisite corporate power and authority to own the Sale Shares and to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

(b) This Agreement has been duly executed and delivered by the Seller and constitutes a valid and binding obligation of the Seller, enforceable in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity).

Section 4.2 Ownership.

As of the date hereof, the number of Sales Shares owned or represented by the Sellers are specified in Exhibit A to this Agreement. Each Seller has and will have voting power, power of disposition, power to issue instructions with respect to the matters set forth in Articles II and III hereof, and power to agree to all of the matters set forth in this Agreement, in each case with respect to all of its Sale Shares at all times, with no limitations, qualifications or restrictions on such rights, subject to applicable securities Laws and the terms of this Agreement. Each Seller has good title to or full power to dispose of its Sales Shares as contemplated hereby, free and clear of any Lien, and as of the TO Closing Date (or, with respect to the Restricted Shares, as of the date such shares are transferred to Merger Sub pursuant to the terms of this Agreement) Merger Sub will acquire good title to such Sales Shares, free and clear of any Lien.

Section 4.3 No Violation.

The execution and delivery of this Agreement by the Seller does not, and the performance by the Seller of its obligations under this Agreement will not, (i) in the case of non nature person Seller, violate or conflict with any provision of the Seller's Articles of Incorporation; (ii) conflict with or violate any Law applicable to the Seller or by which any of their assets or properties is bound; or (iii) conflict with, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of any Lien on the properties or assets of the Seller pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Seller is a party or by which the Seller or any of the Seller's assets or properties is bound, except for any of the foregoing as could not reasonably be expected, either individually or in the aggregate, to materially impair the ability of the Seller to perform the Seller's obligations hereunder or to consummate the transactions contemplated hereby on a timely basis.

Section 4.4 Actions.

There are no Actions pending or, to the knowledge of the Seller, threatened against or affecting the Seller in any court or before any arbitrator of any kind or before or by any Governmental Authority and the Seller has not received written notice of any such Actions, in each case except for such Actions that, if determined adversely to the Seller, would not adversely affect its Sales Shares, the ability of the Seller to execute and deliver this Agreement or any ancillary agreement or perform its obligations hereunder or thereunder.

Section 4.5 No Insolvency.

No meeting has been convened, no petition or application is outstanding, and no order has been issued for the winding up, voluntarily or involuntarily, of the Seller or for a provisional liquidator or receiver to be appointed in respect of the Seller or its assets.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF MERGER SUB

Merger Sub represents and warrants to the Sellers as of the date hereof and as of the TO Closing Date as follows:

Section 5.1 Organization, Standing and Power.

Merger Sub (i) is an exempted company incorporated with limited liability, validly existing and in good standing under the Laws of the jurisdiction of its incorporation, (ii) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted and (iii) is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for any such

failures that either individually or in the aggregate, would not materially impair the ability of Merger Sub to perform Merger Sub's obligations hereunder or to consummate the transactions contemplated hereby on a timely basis.

Section 5.2 Authority.

Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Merger Sub and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by the board of directors of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a legal, valid and binding obligation of Merger Sub, enforceable against it in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity).

Section 5.3 No Violation.

The execution and delivery of this Agreement by the Merger Sub does not, and the performance by the Merger Sub of its obligations under this Agreement will not, (i) violate or conflict with any provision of the Merger Sub's Articles of Incorporation; (ii) conflict with or violate any Law applicable to the Merger Sub or by which any of its assets or properties is bound; or (iii) conflict with, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of any Lien on the properties or assets of the Merger Sub pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Merger Sub is a party or by which the Merger Sub or any of the Merger Sub's assets or properties is bound, except for any of the foregoing as could not reasonably be expected, either individually or in the aggregate, to materially impair the ability of the Merger Sub to perform the Merger Sub's obligations hereunder or to consummate the transactions contemplated hereby on a timely basis.

Section 5.4 Ownership of Merger Sub.

The authorized share capital of Merger Sub consists of 10,000,000,000 shares, 3,021,465,271.47 of which are validly issued and outstanding. All of the issued and outstanding share capital of Merger Sub is, and at the TO Closing Date will be, owned directly or indirectly by Parent.

Section 5.5 Available Funds.

At the TO Closing, Merger Sub will have all funds necessary for settlement of the amount payable to those shareholders who tendered their Shares during the Offer Period, and on or before the Lock-up Shares are released by the TDCC pursuant to Centralized Custody Rules, Merger Sub will have all funds necessary for settlement of the amount payable to holders of the Restricted Shares

for subsequent purchase under Section 2.3, and sufficient for the satisfaction of all of Merger Subs' obligations under this Agreement, and in connection therewith, no portion of the aggregate consideration will be financed with the proceeds from indebtedness for borrowed funds (other than internal loans from Merger Subs' Affiliates, all of which will be available as of the date hereof and will be available on or before the respective dates.)

Section 5.6 Offer Documents.

The Offer Documents will comply in all material respects with the provisions of applicable securities Laws and, on the date filed with the Market Observation Post System and on the date first published, sent or given to the shareholders of the Company, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, except that no representation is made by Merger Sub with respect to information supplied by the Company in writing for inclusion in the Offer Documents.

ARTICLE VI
COVENANTS

Each Seller severally, and not jointly, agrees to Merger Sub as of the date hereof and as of the TO Closing Date as follows:

Section 6.1 Conduct of Business Prior to TO Closing.

(a) Between the date of this Agreement and the date on which the new Chairman of Board nominated by Merger Sub is elected following election of the new directors as set forth in Section 2.4(c) above (the "**Transition Date**"), unless Merger Sub shall otherwise agree in writing (which agreement shall not be unreasonably withheld), the Sellers shall use their best efforts to cause the business of the Company to be conducted only in the ordinary course of business in all material respects, and the Sellers shall use their best efforts to cause the Company to (i) preserve intact in all material respects its current business organization, (ii) maintain in all material respects its assets and properties in good repair and condition, (iii) maintain in all material respects its relations with customers, suppliers and other Persons with which it has material business relations, and (iv) to comply with the Company's obligations under Section 7.1 of the Merger Agreement.

(b) Between the date of this Agreement and the Transition Date, the Sellers shall use their best efforts to cause the Company not to make any distribution of the dividends for profits derived from the fiscal year of 2013 prior to TO Closing.

Section 6.2 Conduct of the Offer.

Merger Sub agrees to conduct the Offer in accordance with applicable Laws and to use its best efforts to obtain all necessary consents and approvals to complete the Offer. If this Agreement is required by applicable Laws to be translated into Chinese, Merger Sub shall prepare such translation at its expense.

Section 6.3 Restrictions on Transfer.

Each Seller hereby agrees, while this Agreement is in effect, and except as expressly contemplated hereby, not to sell, transfer, pledge, encumber, assign, distribute, gift or otherwise dispose of (other than by death of any person) (collectively, a "**Transfer**") or enter into any contract, option or other arrangement or understanding with respect to any Transfer (whether by actual disposition or effective economic disposition due to hedging, cash settlement or otherwise) of, any of its Sale Shares, any additional Shares and options to purchase Shares acquired beneficially or of record by the Seller after the date hereof, or any interest therein, provided, that this Agreement shall not restrict the Seller from making Transfers to effect estate planning and gifts so long as the transferee in such Transfer shall execute an agreement to be bound by the terms of this Agreement and such Transfer shall not result in the incurrence of any Lien upon any such Shares. Each Seller agrees, while this Agreement is in effect, to notify Merger Sub promptly in writing of the number of any additional Shares, any options to purchase Shares or other securities of the Company acquired by the Seller, if any, after the date hereof.

Section 6.4 Acquisition Proposals.

(a) Following the execution hereof, the Sellers shall, and shall cause the Company and its Subsidiaries, and their respective directors, officers, employees, investment bankers, financial advisors, attorneys, accountants or other advisors or agents and representatives (collectively, "**Representatives**") to (i) immediately cease and cause to be terminated all existing discussions or negotiations with any Person conducted heretofore with respect to any Acquisition Proposal (as defined in Section 6.4(e) hereof) or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal, and (ii) request the prompt return or destruction of all confidential information previously furnished by it or on its behalf.

(b) The Sellers shall not, and shall cause the Company and its Subsidiaries and their respective Representatives not to, directly or indirectly, (i) entertain, solicit, initiate, or knowingly encourage or knowingly induce or facilitate the making, submission or announcement of any inquiries or the making of any proposal or offer constituting, related to or that could reasonably be expected to lead to an Acquisition Proposal, (ii) furnish any non-public information regarding the Company and its Subsidiaries to any Person (other than Merger Sub and Merger Sub's or the Company's Representatives acting in their capacity as such) in connection with or in response to an Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal, (iii) engage in discussions or negotiations with any Person (other than Merger Sub) with respect to any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal (other than to state that they currently are not permitted to have discussions), (iv) approve, endorse or recommend any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal, (v) make or authorize any statement, recommendation or solicitation in support of any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal or (vi) enter into any letter of intent or agreement in principle or any Contract providing for, relating to or in connection with any Acquisition Proposal or any proposal, inquiry or offer that could reasonably be expected to lead to an Acquisition Proposal.

(c) The Sellers shall, and shall use best efforts to cause the Company and its Subsidiaries to, promptly (and in any event within twenty-four (24) hours) advise Merger Sub in writing of the receipt of any Acquisition Proposal or any inquiry, proposal or offer that could reasonably be expected to lead to an Acquisition Proposal (including the identity of the Person making or submitting such Acquisition Proposal or inquiry, proposal or offer, and the terms and conditions thereof) that is made or submitted by any Person to the Company prior to the TO Closing Date which comes to such Seller's attention. The Sellers shall, and shall use best efforts to cause the Company and its Subsidiaries to, keep Merger Sub informed, on a current basis, of the status of, and any financial or other changes in, any such Acquisition Proposal, inquiry, proposal or offer, including providing Merger Sub copies of any correspondence related thereto and proposed documents to effect such Acquisition Proposal.

(d) The Sellers, in their capacities as members of the Board, shall use best efforts to not (i) (A) take any action (or permit or authorize the Company or any of its Subsidiaries or any of its or their respective Representatives to) inconsistent with Section 2.4 or resolve, agree or propose to take any such actions or (B) adopt, approve, recommend, endorse or otherwise declare advisable the adoption of any Acquisition Proposal or resolve, agree or propose to take any such actions, (ii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other agreement related to an Acquisition Proposal, or (iii) resolve, agree or propose to take any such actions.

(e) For purposes of this Agreement, "**Acquisition Proposal**" means any proposal or offer (whether or not in writing), with respect to any (A) merger, consolidation, share exchange, other business combination or similar transaction involving the Company or any of its Subsidiaries, (B) sale, lease, contribution or other disposition, directly or indirectly (including by way of merger, consolidation, share exchange, other business combination, partnership, joint venture, sale of capital stock of or other equity interests in a Subsidiary of the Company or otherwise) of any business or assets of the Company or any of its Subsidiaries representing 10% or more of the consolidated revenues, net income or assets of the Company and its Subsidiaries, taken as a whole, (C) issuance, sale or other disposition, directly or indirectly, to any Person (or the stockholders of any Person) or group of securities (or options, rights or warrants to purchase, or securities convertible into or exchangeable for, such securities) representing 10% or more of the voting power of the Company, (D) transaction in which any Person (or the stockholders of any Person) shall acquire, directly or indirectly, beneficial ownership, or the right to acquire beneficial ownership, or formation of any group which beneficially owns or has the right to acquire beneficial ownership of, 10% or more of the Shares or (E) any combination of the foregoing (in each case, other than the Offer and the Merger).

Section 6.5 Notification of Certain Matters.

Merger Sub and the Sellers shall promptly notify each other of the discovery of any inaccurate, untrue, incomplete representations and warranties set forth in Article IV and V; provided, however, that the delivery of any notice pursuant to this Section 6.5 shall not (i) cure any breach

of, or non-compliance with, any other provision of this Agreement or (ii) limit the remedies available to the party sending or receiving such notice.

Section 6.6 No Solicitation.

Each Seller agrees that the Seller, its Subsidiaries and Related Persons will not, for a period of three (3) year after the TO Closing Date, seek to employ, solicit or recruit any person now employed by the Company or any of its Subsidiaries for any business that is in competition with the business as is now being conducted by the Acquired Company, unless such Person (i) responds to any advertisement that is not specifically directed to such Person, (ii) approaches the Seller, its Subsidiaries s or Related Persons on his/her own initiative, or (iii) is solicited by a third party recruiter that did not receive such Person's name or the Company name from the Seller, its Subsidiaries and/or Related Person.

ARTICLE VII
INDEMNIFICATION

Section 7.1 Indemnification by the Sellers.

The Seller shall indemnify severally, and not jointly, Merger Sub, and hold it harmless against, any and all damages incurred or suffered by Merger Sub or any Affiliate thereof resulting from, relating to or constituting:

(a) any breach of any representation or warranty of such Seller contained in this Agreement; or

(b) any failure to perform any covenant or agreement of such Seller contained in this Agreement;

provided, that the aggregate indemnification obligations of such Seller under this Section 7.1 shall be capped at an amount equal to the amount such Seller would be entitled to receive if it tendered all of the Sale Shares in the Offer and the Offer were completed, except in the case of fraud or intentional misrepresentation, in which case the limitation set forth in this sentence shall not apply.

Section 7.2 Additional Indemnification by the Sellers.

Notwithstanding Section 7.1, and in addition to and without in any manner prejudicing or limiting the rights of Merger Sub under this Agreement including Section 7.1 and under applicable Laws, in case Seller breaches any of the provisions contained in Section 2.2 or 2.5 and, in the case of breach of Section 2,2, the breach results in the failure of the Offer, and, in the case of breach of Section 2.5, the breach results in the failure to obtain the Company Shareholder Approval (as defined in the Merger Agreement), the defaulting Seller shall severally, and not jointly with other Sellers, pay a liquidated damage to Merger Sub in an amount equal to the aggregate Offer Price it may receive or has received from the Merger Sub pursuant to the transactions contemplated by this Agreement.

Section 7.3 Indemnification by Merger Sub.

Merger Sub shall indemnify each Seller in respect of, and hold it harmless against, any and all damages incurred or suffered by such Seller resulting from, relating to or constituting:

(a) any breach of any representation or warranty of Merger Sub contained in this Agreement; or

(b) any failure to perform any covenant or agreement of Merger Sub contained in this Agreement;

provided, that the indemnification obligations of Merger Sub to such Seller under this Section 7.3 shall be capped at an amount equal to the amount such Seller would be entitled to receive if it tendered all of the Sale Shares in the Offer and the Offer were completed, except in the case of fraud or intentional misrepresentation, in which case the limitation set forth in this sentence shall not apply.

ARTICLE III
TERMINATION, AMENDMENT AND WAIVER

Section 8.1 Termination. This Agreement may be terminated only as follows:

(a) by mutual written consent of Merger Sub, on the one hand, and all of the Sellers, on the other, at any time; or

(b) by either Merger Sub on the one hand, or all of the Sellers, on the other:

(i) if any court of competent jurisdiction or other Governmental Authority shall have issued a judgment, order, injunction, rule or decree, or taken any other action restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement, and such judgment, order, injunction, rule, decree or other action shall have become final and nonappealable; or

(ii) if the Offer shall not be successful and completed in accordance with the applicable Laws and the terms and conditions of the Offer (including the failure to tender the Minimum Shares within the Offer Period) on or prior to August 31, 2014, or the failure for Merger Sub or the Company to obtain the necessary regulatory approvals from any Governmental Authority for the transactions contemplated by this Agreement and/or the Merger Agreement and otherwise; provided, however, that the right to terminate this Agreement under this Section 8.1(b)(ii) shall not be available to any party whose failure to fulfill any of its obligations under this Agreement has been the principal cause of, or resulted in, the failure of the Offer to be completed on or before such date.

(c) by Merger Sub, if the Offer is properly withdrawn as a result of a material change to the financial or business conditions of the Company and such change is proved by Merger Sub, subject to the approval of the FSC.

Section 8.2 Effect of Termination.

In the event of termination of this Agreement, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Merger Sub or the Sellers, except that the provisions of Article VII, this Section 8.2, Section 8.3(*Fees and Expenses*), Section 8.4 (*Amendment or Supplement*), and Article IX (*General Provisions*) of this Agreement shall survive the termination hereof. Notwithstanding the foregoing, nothing contained herein shall relieve any party hereto of liability for any intentional breach of its covenants or agreements set forth in this Agreement prior to such termination or for fraud.

Section 8.3 Fees and Expenses.

Unless provided otherwise herein, all fees and expenses incurred in connection with this Agreement, the Offer and the other transactions contemplated hereby shall be borne and timely paid by the party incurring such fees or expenses, whether or not the Offer is consummated.

Section 8.4 Amendment or Supplement.

This Agreement may be amended, modified or supplemented by the parties hereto by action taken or authorized by written agreement of the parties hereto (by action taken by their respective boards of directors, if required) at any time prior to the TO Closing Date. This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing specifically designated as an amendment hereto, signed on behalf of each of the parties in interest at the time of the amendment.

ARTICLE IX
GENERAL PROVISIONS

Section 9.1 Survival of Representations and Warranties.

The representations and warranties of the Sellers and Merger Sub contained in this Agreement and all rights and remedies in connection therewith shall continue notwithstanding that the completion of the Offer, and shall survive until the record date of the Merger.

Section 9.2 Notices.

All notices or other communications required or permitted hereunder shall reference this Agreement, shall be in writing in the English language, shall be delivered personally, by facsimile (with confirming copy sent by one of the other delivery methods specified herein) or by overnight courier or by certified, registered or express air mail, postage prepaid, and shall be deemed given when so delivered personally, or when so received by facsimile or courier, or, if mailed, five Business Days after the date of mailing, as follows:

if to Merger Sub, to:

Microchip Technology (Barbados) II Incorporated
2355 W. Chandler Blvd.
Chandler, AZ 85224, USA
Attention: Kim van Herk
Facsimile: 1- 480-792-4112
with copy (which shall not constitute notice) to:

Lee and Li, Attorneys-at-Law
9F, No. 201, Tun Hua N. Road
Taipei 105, Taiwan, R. O. C.
Attention: James Chen, Esq.
Facsimile: 886-2-2713-3966

if to the Seller, to the address set forth below such Shareholder's signature hereto

Section 9.3 Interpretation.

When a reference is made in this Agreement to a Section, Article or Exhibit, such reference shall be to a Section, Article or Exhibit of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement or in any Exhibit are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Exhibit but not otherwise defined therein shall have the meaning set forth in this Agreement. All Exhibits annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth herein. The words "include," "includes" and "including" and words of similar import when used in this Agreement will mean "include, without limitation," "includes, without limitation" or "including, without limitation," unless otherwise specified.

Section 9.4 Entire Agreement.

This Agreement (including the Exhibits hereto) constitutes the entire agreement with respect to the subject matter hereof and thereof, and supersede all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings among the parties with respect to the subject matter hereof and thereof.

Section 9.5 Parties in Interest.

Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature under or by reason of this Agreement.

Section 9.6 Governing Law.

This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the ROC, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of Laws principles of the ROC.

Section 9.7 Dispute Resolution.

(a) Each of the parties irrevocably agrees that any dispute, legal action or proceeding arising out of or relating to this Agreement (an "**Arbitrable Dispute**") brought by any party or its successors or assigns shall be brought and determined to be settled by binding arbitration. Notwithstanding the preceding sentence, nothing in this Section 9.7 shall prevent a party from seeking specific performance as contemplated by Section 9.9 from a court of competent jurisdiction pending settlement of any Arbitrable Dispute.

(b) Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration in Singapore administered by the Singapore International Arbitration Centre ("**SIAC**") in accordance with the Arbitration Rules of the Singapore International Arbitration Centre ("**SIAC Rules**") for the time being in force, which rules are deemed to be incorporated by reference in this clause. However, in all events, the provisions contained herein shall govern over any conflicting rules which may now or hereafter be contained in the SIAC Rules. Any judgment upon the award rendered by the arbitrator shall be entered in any court having jurisdiction over the subject matter thereof, including, without limitation, the Taipei District Court. The arbitrator shall have the authority to grant any equitable and legal remedies that would be available if any judicial proceeding was instituted to resolve an Arbitrable Dispute. The final decision of the arbitrator (the "**Final Decision**"), as entered by a court of competent jurisdiction, will be furnished by the arbitrator to the parties in writing and will constitute a final, conclusive and non-appealable determination of the issue in question, binding upon the parties, and an order with respect thereto may be entered in any court of competent jurisdiction, including, without limitation, the Taipei District Court.

(c) Any such arbitration will be conducted before a single arbitrator who will be compensated for his or her services at a rate to be determined by the parties or by SIAC, but based upon reasonable hourly or daily consulting rates for the arbitrator in the event the parties are not able to agree upon his or her rate of compensation.

(d) The arbitrator shall be mutually agreed upon by Merger Sub, on the one hand, and the Sellers, on the other. If the parties are unable to agree within twenty (20) days following

submission of the dispute to SIAC by one of the parties, SIAC will have the authority to select an arbitrator from a list of arbitrators who satisfy the criteria set forth in Section 9.7(e).

(e) No arbitrator shall have any past or present family, business or other relationship with Merger Sub, Parent, the Company, any Seller, or any Affiliate, Subsidiary, director or officer thereof, unless following full disclosure of all such relationships, Merger Sub, on the one hand, and the Sellers, on the other, agree in writing to waive such requirement with respect to an individual in connection with any Arbitrable Dispute.

(f) The arbitrator shall be instructed to hold an up to eight hour, one day hearing regarding the disputed matter within sixty (60) days of his designation and to render an award (without written opinion) no later than ten (10) days after the conclusion of such hearing, in each case unless otherwise mutually agreed in writing by Merger Sub, on the one hand, and the Sellers, on the other.

(g) No discovery other than an exchange of relevant documents may occur in any arbitration commenced under the provisions hereof. The parties agree to act in good faith to promptly exchange relevant documents.

(h) Merger Sub, on the one hand, and the Sellers, on the other, will each pay 50% of the initial compensation to be paid to the arbitrator in any such arbitration and 50% of the costs of transcripts and other normal and regular expenses of the arbitration proceedings; provided, however, that: (i) the prevailing party in any arbitration will be entitled to an award of attorneys' fees and costs; and (ii) all costs of arbitration, other than those provided for above, will be paid by the losing party, and the arbitrator will be authorized to determine the identity of the prevailing party and the losing party.

(i) The arbitrator chosen in accordance with these provisions will not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or any other provisions contained in this Agreement.

(j) Except as specifically otherwise provided herein, arbitration will be the sole and exclusive remedy of the parties for any Arbitrable Dispute or any other dispute arising out of or relating to this Agreement.

Section 9.8 Assignment; Successors.

Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, as a whole or in part, by operation of Law or otherwise, by any party without the prior written consent of the other parties, and any such assignment without such prior written consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns.

Section 9.9 Enforcement.

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the Seller and Merger Sub shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in a court of competent jurisdiction, including, without limitation, the Taipei District Court, this being in addition to any other remedy to which such party is entitled at Law or in equity. To the extent permitted by laws, each of the parties hereby further waives any requirement under any Law to post security as a prerequisite to obtaining equitable relief.

Section 9.10 Severability.

Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 9.11 Counterparts.

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party.

Section 9.12 Electronic Signature.

This Agreement may be executed by facsimile signature or electronically scanned signature and such signatures shall constitute an original for all purposes.

Section 9.13 No Presumption Against Drafting Party.

Each of Merger Sub and the Sellers acknowledges that each party to this Agreement has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of Law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is hereby expressly waived.

Section 9.14 No Joint Liability.

Sellers shall bear several, but not joint, liabilities to Merger Sub for any and all representations, warranties, covenants, commitments, undertakings and obligations of Sellers and/or the Company under this Agreement.

[Signature page follows.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

Microchip Technology (Barbados) II Incorporated

By: /s/: J. Eric Bjornholt
Name: James Eric Bjornholt
Title: Director

Max Wu (吳廣義)

By: /s/: Max Wu
Name: Max Wu
Title: Chairman

Notice Address:
[In Chinese characters]---------
_____
_____
_____

James Lin (林京元)

By: /s/: James Lin
Name: James J. Y. Lin
Title: CEO

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Chao Chen (陳超)

By: /s/: Chao Chen
Name: Chao Chen
Title: Director

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Realtek Semiconductor Corp. (瑞昱半導體股份有限公司)

By: /s/: [authorized signatory; company stamp]

Name: Name in Chinese characters
Title:

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Yuanta 1 Venture Capital (元大壹創業投資股份有限公司)

By: /s/: [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Title in Chinese characters

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Genesis Venture Capitals

By: /s/: [authorized signatory; company stamp]
Name:
Title:

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Centillion 3 Venture Capital (群陽創業投資股份有限公司)

By: /s/: [authorized signatory; company stamp]
Name:
Title:

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Yuanta Venture Capital (元大創業投資股份有限公司)

By: /s/: [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Title in Chinese characters

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Hong Wei Venture Capital Corp. (鴻威創業投資股份有限公司)

By: /s/: [authorized signatory; company seal]
Name: Name in Chinese characters
Title:

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Rong-Ken Yang (楊榮根)

By: /s/: [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Name in Chinese characters

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Da-Cheng Su (蘇達成)

By: /s/: [authorized signatory; name in Chinese characters]
Name:
Title:

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Kuang Hu Haang

By: /s/: Kuang Hu Haang

Notice Address:
6F. No. 5 Alley 5
Lane 298
Guang Fu Road. Sec. 2
Hsih Chu

Wei-Chung Peng (彭蔚中)

By: /s/: [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Title in Chinese characters

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Mark Huang (黃震)

By: /s/: Mark Huang
Name: Name in Chinese characters
Title: Title in Chinese characters (Finance & ADM -VP)

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Hsin Chu (朱欣)

By: /s/: Hsin Chu
Name:
Title:

Notice Address:

_____

_____
_____
_____

Ming-Zen Lin (林明仁)

By: /s/: [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Title in Chinese characters

Notice Address:
[In Chinese characters]---------
_____
_____
_____

Exhibit A
List of Sale Shares

Seller	Number of Sale Shares Owned or Represented by each Seller	Number of Restricted Shares (including the Lock-Up Shares)	Number of Sale Shares to be Tendered under Section 2.2
Max Wu (吳廣義)	1,290,740	382,740	908,000
James Lin (林京元)	3,600,779	760,779	2,840,000
Chao Chen (陳超)	304,725	152,363	152,362
Realtek Semiconductor Corp. (瑞昱半導體股份有限公司)	4,660,724	2,316,724	2,344,000
Yuanta 1 Venture Capital (元大壹創業投資股份有限公司)	516,985	258,493	258,492
Genesis Venture Capitals	627,000	269,000	358,000
Centillion 3 Venture Capital (群陽創業投資股份有限公司)	3,273,000	1,119,500	2,153,500
Yuanta Venture Capital (元大創業投資股份有限公司)	705,000	334,500	370,500
Hong Wei Venture Capital Corp. (鴻威創業投資股份有限公司)	2,364,000	1,182,000	1,182,000
Rong-Ken Yang (楊榮根)	385,095	62,095	323,000
Da-Cheng Su (蘇達成)	217,000	42,427	174,573
Guang-Hu Huang (黃光虎)	135,000	45,807	89,193
Wei-Chung Peng (彭蔚中)	264,928	34,928	230,000
Mark Huang (黃震)	31,500	15,750	15,750
Xin Zhu (朱欣)	220,000	55,464	164,536
Ming-Zen Lin (林明仁)	60,000	19,547	40,453
Total	**18,656,476**	**7,052,116**	**11,604,360**

Exhibit B
Form of Offer Documents

EXHIBIT 2.3

ISSC Technologies Corp.
5F., No.5, Industry East 7th Road
Hsinchu Science Park, Hsinchu City 30077
Republic of China

May 22, 2014

Re: Guaranty Concerning Merger Agreement

Dear Sir,

This Guaranty ("**Guaranty**") is made as of May 22, 2014, by Microchip Technology Incorporated, a company organized and existing under the laws of the state of Delaware ("**Guarantor**") and the parent company of Merger Sub, to and for the benefit of ISSC Technologies Corp., a company incorporated and in existence under the laws of the Republic of China (the "**ROC**") with a principal place of business at 5F., No.5, Industry East 7th Road, Hsinchu Science Park, Hsinchu City 30077, ROC (the "**Company**") with respect to certain obligations of Microchip Technology (Barbados) II Incorporated, a company incorporated and in existence under the laws of the the Cayman Islands with its registered office at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, and having a branch office in the ROC at 30F-1, No.8, Min-Chuan 2nd Road, Kaohsiung, 80661, ROC ("**Merger Sub**").

WHEREAS, the Company and Merger Sub are entering into an agreement and plan of merger dated as of May 22, 2014 (the "**Merger Agreement**") regarding the Merger;

WHEREAS, Guarantor as the ultimate parent of Merger Sub will benefit by the Company and Merger Sub entering into the Merger Agreement and consummating the Merger; and

WHEREAS, in order to induce the Company to enter into the Merger Agreement with Merger Sub and consummate the Merger, Guarantor is willing to guarantee the obligations of Merger Sub under the Merger Agreement.

NOW THEREFORE, in consideration of the agreement of the Company to enter into the Merger Agreement with Merger Sub and consummate the Merger and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows. Capitalized terms not defined herein shall have the same meanings as those given to them under the Merger Agreement:

1. Subject to the express limitations set forth herein, Guarantor irrevocably and unconditionally guarantees and undertakes, as a surety, the payment by Merger Sub of all sums payable by Merger Sub under the Merger Agreement and the performance, observance and compliance in all respects with all of the terms, conditions, representations, warranties, covenants, obligations, agreements and undertakings to be

kept and performed by Merger Sub pursuant to or otherwise in connection with the Merger Agreement. Notwithstanding any other provisions in this Guaranty and except for the guaranty of the obligations of Merger Sub under Section 9.3(c) of the Merger Agreement, any rights of the Company arising from any provision of this Guaranty are subject to the satisfaction or waiver, as applicable, of each of the conditions precedent set forth in Article VIII of the Merger Agreement.

2. Guarantor hereby covenants and agrees to and with the Company that if a default shall at any time be made by Merger Sub in the payment of any sums and charges payable by Merger Sub under the Merger Agreement, or, if a default by Merger Sub in the performance and observance of any of the terms, covenants, provisions or conditions contained in the Merger Agreement occurs, Guarantor shall, upon delivery of written notice from the Company, promptly forthwith pay such sums and charges then due and any arrears thereof.

3. The liability of Guarantor under this Guaranty shall be primary, and in any right of action which shall accrue to the Company under the Merger Agreement, the Company may, at its option, proceed against Guarantor without having commenced any action or obtained any judgment against Merger Sub or any other person who may be liable under the Merger Agreement. Guarantor hereby waives the right to require the Company to proceed against Merger Sub to exercise any right or remedy under the Merger Agreement or to pursue any other remedy or to enforce any other right.

4. Until all of the obligations of Merger Sub shall have been performed and all the payments have been made, the Guarantor shall not take any action which would prevent or interfere with the performance by Merger Sub of any of the obligations under the Merger Agreement and, regardless of any payments by the Guarantor hereunder, any claims of the Guarantor against Merger Sub for or on account of the granting of this Guaranty shall be subrogated to the claim of the Company, and no lien or other security of the Guarantor in relation hereof shall become enforceable against Merger Sub until such time as the obligations of Merger Sub have been performed and all the payments have been made pursuant to the Merger Agreement.

5. Guarantor's liability hereunder shall continue until all sums due and owing the Company under the Merger Agreement have been paid in full in cash and all obligations of Merger Sub to be performed under the Merger Agreement have been performed.

6. Guarantor hereby makes the following representations and warranties to the Company: (a) Guarantor (i) is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware, (ii) is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for any such failures that individually or in the aggregate, have not had, and would not reasonably be expected to materially impair the ability of Guarantor to perform its obligations hereunder or to consummate the transactions contemplated hereby on a timely basis; (b) Guarantor has all necessary corporate power and authority to execute and deliver this Guaranty and to perform its obligations hereunder, and to consummate the transactions contemplated hereby; (c) the execution, delivery and performance of this Guaranty by Guarantor and the consummation by Guarantor of the transactions contemplated hereby have been duly authorized by the board of directors of Guarantor, and no other corporate proceedings on the part of Guarantor are necessary

to approve this Guaranty, or to consummate the transactions contemplated hereby; and (d) this Guaranty has been duly executed and delivered by Guarantor, constitutes a legal, valid and binding obligation of Guarantor, and is intended to be valid and enforceable against it in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity).

7. All notices or other communications required or permitted hereunder shall reference this Guaranty, shall be in writing in the English language, shall be delivered personally, by facsimile (with confirming copy sent by one of the other delivery methods specified herein) or by overnight courier or by certified, registered or express air mail, postage prepaid, and shall be deemed given when so delivered personally, or when so received by facsimile or courier, or, if mailed, five Business Days after the date of mailing, as follows, if to Guarantor, to:

Microchip Technology Incorporated
2355 W. Chandler Blvd.
Chandler, AZ 85224, USA
Attention: Kim van Herk
Vice President, General Counsel and Corporate Secretary
Facsimile: 1- 480-792-4112

with copy (which shall not constitute notice) to:

Lee and Li, Attorneys-at-Law
9F, No. 201, Tun Hua N. Road
Taipei 105, Taiwan, R. O. C.
Attention: James Chan, Esq.
Facsimile: 886-2-2713-3966

8. Guarantor may not assign or otherwise delegate any of its rights or obligations hereunder without first obtaining the Company's written consent thereto.

9. This Guaranty and all disputes or controversies arising out of or relating to this Guaranty or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the ROC, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of Laws principles of the ROC. Each of the parties irrevocably agrees that any dispute, legal action or proceeding arising out of or relating to this Guaranty brought by any party or its successors or assigns shall be brought and determined to be settled by binding arbitration in accordance with Section 10.6 of the Merger Agreement.

10. This Guaranty shall constitute the entire agreement between Guarantor and the Company with respect to the subject matter hereof.

[Signature page follows.]

Microchip Technology Incorporated

By: /s/: James Eric Bjornholt

ACKNOWLEDGED AND AGREED, this 22nd day of May 2014

ISSC Technologies Corp.

By: /s/: Max Wu

EXHIBIT 2.4

Max Wu (吳廣義)James Lin (林京元)
Chao Chen (陳超)
Realtek Semiconductor Corp. (瑞昱半導體股份有限公司)
Yuanta 1 Venture Capital (元大壹創業投資股份有限公司)
Genesis Venture Capitals
Centillion 3 Venture Capital (群陽創業投資股份有限公司)
Yuanta Venture Capital (元大創業投資股份有限公司)
Hong Wei Venture Capital Corp. (鴻威創業投資股份有限公司)
Rong-Ken Yang (楊榮根)
Da-Cheng Su (蘇達成)
Guang-Hu Huang (黃光虎)
Wei-Chung Peng (彭蔚中)
Mark Huang (黃震)
Xin Zhu (朱欣)
Ming-Zen Lin (林明仁)

May 22, 2014

Re: Guaranty Concerning Tender Agreement

Dear Sirs,

This Guaranty ("**Guaranty**") is made as of May 22, 2014, by Microchip Technology Incorporated, a company organized and existing under the laws of the state of Delaware ("**Guarantor**") and the parent company of Merger Sub, to and for the benefit of those persons addressed above (each, a "**Seller**"; collectively the "**Sellers**") with respect to certain obligations of Microchip Technology (Barbados) II Incorporated, a company incorporated and in existence under the laws of the the Cayman Islands with its registered office at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, and having a branch office in the ROC at 30F-1, No.8, Min-Chuan 2nd Road, Kaohsiung, 80661, ROC ("**Merger Sub**").

WHEREAS, the Sellers and Merger Sub are entering into a tender agreement dated as of May 22, 2014 (the "**Tender Agreement**") regarding the Offer and the tender of the Sales Shares by the Sellers pursuant to the Offer;

WHEREAS, Guarantor as the ultimate parent of Merger Sub will benefit by the Sellers and Merger Sub entering into the Tender Agreement and the Closing of the Offer; and

WHEREAS, in order to induce the Sellers to enter into the Tender Agreement with Merger Sub, Guarantor is willing to guarantee the obligations of Merger Sub under the Tender Agreement.

NOW THEREFORE, in consideration of the agreement of the Sellers to enter into the Tender Agreement with Merger Sub and the Closing of the Offer and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows. Capitalized terms not defined herein shall have the same meanings as those given to them under the Tender Agreement:

1. Subject to the express limitations set forth herein, Guarantor irrevocably and unconditionally guarantees and undertakes, as a surety, the payment by Merger Sub of all sums payable by Merger Sub under the Tender Agreement and the performance, observance and compliance in all respects with all of the terms, conditions, representations, warranties, covenants, obligations, agreements and undertakings to be kept and performed by Merger Sub pursuant to or otherwise in connection with the Tender Agreement. Notwithstanding any other provisions in this Guaranty and except for the guaranty of the obligations of Merger Sub under Section 7.3 of the Tender Agreement, any rights of the Seller arising from any provision of this Guaranty are subject to the satisfaction or waiver, as applicable, of the Minimum Shares being tendered within the Offer Period and each condition of the Offer to the Closing set forth in the Tender Agreement.

2. Guarantor hereby covenants and agrees to and with each Seller that if a default shall at any time be made by Merger Sub in the payment of any sums and charges payable by Merger Sub under the Tender Agreement, or, if a default by Merger Sub in the performance and observance of any of the terms, covenants, provisions or conditions contained in the Tender Agreement occurs, Guarantor shall, upon delivery of written notice from the Seller, promptly forthwith pay such sums and charges then due and any arrears thereof.

3. The liability of Guarantor under this Guaranty shall be primary, and in any right of action which shall accrue to each Seller under the Tender Agreement, each Seller may, at its option, proceed against Guarantor without having commenced any action or obtained any judgment against Merger Sub or any other person who may be liable under the Tender Agreement. Guarantor hereby waives the right to require the Seller to proceed against Merger Sub to exercise any right or remedy under the Tender Agreement or to pursue any other remedy or to enforce any other right.

4. Until all of the obligations of Merger Sub shall have been performed and all the payments have been made, the Guarantor shall not take any action which would prevent or interfere with the performance by Merger Sub of any of the obligations under the Tender Agreement and, regardless of any payments by the Guarantor hereunder, any claims of the Guarantor against Merger Sub for or on account of the granting of this Guaranty shall be subrogated to the claim of the Sellers, and no lien or other security of the Guarantor in relation hereof shall become enforceable against Merger Sub until such time as the obligations of the Merger Sub have been performed and all the payments have been made pursuant to the Tender Agreement.

5. Guarantor's liability hereunder shall continue until all sums due and owing the Sellers under the Tender Agreement have been paid in full in cash and all obligations of Merger Sub to be performed under the Tender Agreement have been performed.

6. Guarantor hereby makes the following representations and warranties to the Sellers: (a) Guarantor (i) is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware, (ii) is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for any such failures that individually or in the aggregate, have not had, and would not reasonably be expected to materially impair the ability of Guarantor to perform its obligations hereunder or to consummate the transactions contemplated hereby on a timely basis; (b) Guarantor has all necessary corporate power and authority to execute and deliver this Guaranty and to perform its obligations hereunder, and to consummate the transactions contemplated hereby; (c) the execution, delivery and performance of this Guaranty by Guarantor and the consummation by Guarantor of the transactions contemplated hereby have been duly

authorized by the board of directors of Guarantor, and no other corporate proceedings on the part of Guarantor are necessary to approve this Guaranty, or to consummate the transactions contemplated hereby; and (d) this Guaranty has been duly executed and delivered by Guarantor, constitutes a legal, valid and binding obligation of Guarantor, and is intended to be valid and enforceable against it in accordance with its terms (except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity).

7. All notices or other communications required or permitted hereunder shall reference this Guaranty, shall be in writing in the English language, shall be delivered personally, by facsimile (with confirming copy sent by one of the other delivery methods specified herein) or by overnight courier or by certified, registered or express air mail, postage prepaid, and shall be deemed given when so delivered personally, or when so received by facsimile or courier, or, if mailed, five Business Days after the date of mailing, as follows, if to Guarantor, to:

Microchip Technology Incorporated
2355 W. Chandler Blvd.
Chandler, AZ 85224, USA
Attention: Kim van Herk
Vice President, General Counsel and Corporate Secretary
Facsimile: 1- 480-792-4112

with copy (which shall not constitute notice) to:

Lee and Li, Attorneys-at-Law
9F, No. 201, Tun Hua N. Road
Taipei 105, Taiwan, R. O. C.
Attention: James Chan, Esq.
Facsimile: 886-2-2713-3966

8. Guarantor may not assign or otherwise delegate any of its rights or obligations hereunder without first obtaining the Sellers' written consent thereto.

9. This Guaranty and all disputes or controversies arising out of or relating to this Guaranty or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the ROC, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of Laws principles of the ROC. Each of the parties irrevocably agrees that any dispute, legal action or proceeding arising out of or relating to this Guaranty brought by any party or its successors or assigns shall be brought and determined to be settled by binding arbitration in accordance with Section 9.7 of the Tender Agreement.

10. This Guaranty shall constitute the entire agreement between Guarantor and the Sellers with respect to the subject matter hereof.

[Signature page follows.]

Microchip Technology Incorporated

By: /s/: J. Eric Bjornholt

ACKNOWLEDGED AND AGREED, this 22nd day of May 2014

Max Wu (吳廣義)

By: /s/: Max Wu
Name: Max Wu
Title: Chairman

James Lin (林京元)

By: /s/ [authorized signatory; name in Chinese characters]

Name: Name in Chinese characters
Title: CEO

Chao Chen (陳超)

By: /s/: Chao Chen
Name: Chao Chen
Title: Director

Realtek Semiconductor Corp. (瑞昱半導體股份有限公司)

By: /s/ [authorized signatory; company stamp]
Name: Name in Chinese characters
Title:

Yuanta 1 Venture Capital (元大壹創業投資股份有限公司)

By: /s/ [authorized signatory; name in Chinese characters]
Name: Name in Chinese characters
Title: Title in Chinese characters

Genesis Venture Capitals

By: /s/ [authorized signatory; company stamp]

Name:
Title:

Centillion 3 Venture Capital (群陽創業投資股份有限公司)

By: /s/ [authorized signatory; company stamp]

Name:
Title:

Yuanta Venture Capital (元大創業投資股份有限公司)

By: /s/ [authorized signatory; name in Chinese characters]

Name: Name in Chinese characters
Title: Title in Chinese characters

Hong Wei Venture Capital Corp. (鴻威創業投資股份有限公司)

By: /s/ [authorized signatory; name in Chinese characters and company stamp]
Name:
Title:

Rong-Ken Yang (楊榮根)

By: /s/ R.-K. Yang

Name: Rong-Ken Yang
Title: Production VP

Da-Cheng Su (蘇達成)

By: /s/ [authorized signatory; name in Chinese characters]
Name:
Title:

Kuang Hu Huang

By: /s/ Kuang Hu Huang
Name:
Title:

Wei-Chung Peng (彭蔚中)

By: /s/ [authorized signatory; name in Chinese characters]
Name: Wei-Chung Peng
Title: CTO

Mark Huang (黃震)

By: /s/ Mark Huang
Name:
Title: Finance & ADM-VP

Hsin Chu (朱欣)

By: /s/ Hsin Chu
Name:
Title:

Ming-Zen Lin (林明仁)

By: /s/ [authorized signatory; name in Chinese characters]
Name: Name in Chinese Characters
Title: Title in Chinese Characters

EXHIBIT 2.5

AGREEMENT AND PLAN OF MERGER

by and among

MICROCHIP TECHNOLOGY INCORPORATED,

ORCHID ACQUISITION CORPORATION

and

SUPERTEX, INC.

Dated as of February 9, 2014

INDEX OF ANNEXES

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into as of February 9, 2014 by and among MICROCHIP TECHNOLOGY INCORPORATED, a Delaware corporation ("Parent"), ORCHID ACQUISITION CORPORATION, a California corporation and a wholly-owned subsidiary of Parent ("Merger Sub"), and SUPERTEX, INC., a California corporation (the "Company"). All capitalized terms used in this Agreement shall have the respective meanings ascribed thereto in Article I.

W I T N E S S E T H:

WHEREAS, it is proposed that Merger Sub will merge with and into the Company (the "Merger"), and each share (each, a "Share," and collectively, the "Shares") of Common Stock, no par value, of the Company (the "Company Common Stock") that is then outstanding will thereupon be cancelled and converted into the right to receive cash in an amount equal to thirty-three dollars ($33.00) (the "Merger Consideration"), all upon the terms and subject to the conditions set forth herein.

WHEREAS, the Board of Directors of the Company (the "Company Board") has unanimously (i) determined that this Agreement and the transactions contemplated hereby, including the Merger, are advisable, (ii) determined that this Agreement and the transactions contemplated hereby, including the Merger, are fair to and in the best interests of the Company and its shareholders, (iii) approved this Agreement and the transactions contemplated hereby, including the Merger, and (iv) resolved to recommend that the holders of Shares approve this Agreement, all upon the terms and subject to the conditions set forth herein.

WHEREAS, the Board of Directors of Parent and Merger Sub have unanimously (i) determined that this Agreement and the transactions contemplated hereby, including the Merger, are advisable, and (ii) approved this Agreement and the transactions contemplated hereby, including the Merger, all upon the terms and subject to the conditions set forth herein.

WHEREAS, concurrently with the execution and delivery of this Agreement, as a condition and inducement to the willingness of Parent and Merger Sub to enter into this Agreement, each of the directors of the Company, in their respective capacities as shareholders of the Company, have entered into Voting Agreements with Parent substantially in the form attached hereto as Annex A (each, a "Voting Agreement" and collectively, the "Voting Agreements").

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements set forth herein, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, and intending to be legally bound hereby, Parent, Merger Sub and the Company hereby agree as follows:

ARTICLE I
DEFINITIONS & INTERPRETATIONS

1.1 Certain Definitions. For all purposes of and under this Agreement, the following capitalized terms shall have the following respective meanings:

"Acquisition Proposal" shall mean any offer or proposal (other than an offer or proposal by Parent or Merger Sub) relating to any Acquisition Transaction.

"Acquisition Transaction" shall mean any transaction or series of related transactions (other than the transactions contemplated by this Agreement) involving: (i) any acquisition or purchase from the Company or any of its Subsidiaries by any Person or "group" (as defined in or under Section 13(d) of the Exchange Act), directly or indirectly, of more than a fifteen percent (15%) interest in the total outstanding voting securities of the Company or any of its Subsidiaries, or any tender offer or exchange offer that if consummated would result in any Person or "group" (as defined in or under Section 13(d) of the Exchange Act) beneficially owning fifteen percent (15%) or more of the total outstanding voting securities of the Company or any of its Subsidiaries; (ii) any merger, consolidation, business combination or other similar transaction involving the Company or any of its Subsidiaries pursuant to which the shareholders of the Company immediately preceding such transaction hold less than eighty-five percent (85%) of the equity interests in the surviving or resulting entity of such transaction; (iii) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of more than fifteen percent (15%) of the assets of the Company or any of its Subsidiaries other than those involving movement of investments between cash, short-term, and long term securities; (iv) any liquidation, dissolution, recapitalization or other significant corporate reorganization of the Company or any of its Subsidiaries or (v) any combination of the foregoing.

"Affiliate" shall mean, with respect to any Person, any other Person which directly or indirectly controls, is controlled by or is under common control with such Person. For purposes of the immediately preceding sentence, the term "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Associate" shall have the meaning ascribed to such term in Rule 12b-2 under the Exchange Act.

"Balance Sheet" shall mean the consolidated balance sheet of the Company and its Subsidiaries as of April 3, 2010.

"Business Day" shall mean any day, other than a Saturday, Sunday and any day which is a legal holiday under the Laws of the State of California or New York or is a day on which banking institutions located in such States are authorized or required by Law or other governmental action to close.

"Business Facility" shall mean any property including the land, improvements, indoor air, groundwater, and surface water that is or at any time has been owned, operated, occupied, controlled or leased by the Company, its Subsidiaries or any of their predecessors in connection with the operation of their respective business.

"California Law" shall mean the CGCL and any other applicable Law of the State of California.

"CGCL" shall mean the General Corporation Law of the State of California, or any successor statute thereto.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute thereto.

"Company Capital Stock" shall mean the Company Common Stock, the Company Preferred Stock and any other shares of capital stock of the Company.

"Company ESPP" shall mean the Company 2000 Employee Stock Purchase Plan.

"Company IP" shall mean all Technology and Intellectual Property Rights that are used, held for use, or otherwise licensed to or owned by the Company or any of its Subsidiaries.

"Company Intellectual Property Rights" shall mean all of the Intellectual Property Rights owned by, or filed in the name of, or exclusively licensed to the Company or any of its Subsidiaries.

"Company Material Adverse Effect" shall mean any fact, event, circumstance, change or effect (each a "Change", and collectively, "Changes") that, individually or in the aggregate, (x) has or would reasonably be expected to have a material adverse effect on the business, operations, assets, liabilities, properties, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole or (y) has or would reasonably be expected to materially impede the ability of the Company to consummate the transactions contemplated by this Agreement in accordance with the terms hereof or applicable Law; provided, however, that to the extent any Change is caused by, results from or is attributable to any of the following, it shall not be taken into account when determining whether there has been or would reasonably be expected to be a material adverse effect on the business, operations, assets, liabilities, properties, financial condition or results of operations of Company and its Subsidiaries: (1) general economic conditions (or changes in such conditions) in the United States or any other country or region in the world, or economic conditions in the global economy generally; (2) conditions (or changes in such conditions) in the financial markets, credit markets or capital markets in the United States or any other country or region in the world, including (A) changes in interest rates in the United States or any other country and changes in exchange rates for the currencies of any countries and (B) any suspension of trading in securities (whether equity, debt, derivative or hybrid securities) generally on any securities exchange or over-the-counter market operating in the United States or any other country or region in the world; (3) conditions (or changes in such conditions) in the industries in which the Company conducts business;

(4) political conditions (or changes in such conditions) in the United States or any other country or region in the world; (5) acts of war, sabotage or terrorism (including any escalation or general worsening of any such acts of war, sabotage or terrorism) in the United States or any other country or region in the world; (6) earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wildfires or other natural disasters, weather conditions and other force majeure events in the United States or any other country or region in the world; (7) the public announcement or pendency of the Merger (including by way of example the termination of relationships by the Company's customers or the delay or cancellation of orders or products by the Customer's customers caused by, resulting from or attributable to the public announcement or pendency of the Merger); (8) changes after the date of this Agreement in GAAP (or the interpretations thereof); (9) changes in the Company's stock price or the trading volume of the Company's stock (it being understood that the cause or causes of any such change that are not otherwise excluded from the definition of Company Material Adverse Effect may be deemed either alone or in combination with other events to constitute a Company Material Adverse Effect and may be taken into account in determining whether a Company Material Adverse Effect has occurred); (10) any failure by the Company to meet any public estimates or expectations of the Company's revenue, earnings or other financial performance or results of operations for any period, or any failure by the Company to meet its internal budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations (it being understood that the cause or causes of any such failure that are not otherwise excluded from the definition of Company Material Adverse Effect may be considered either alone or in combination with other events to constitute a Company Material Adverse Effect and may be taken into account in determining whether a Company Material Adverse Effect has occurred); and (11) any legal proceedings made or brought by any of the current or former shareholders of the Company (on their own behalf or on behalf of the Company) against the Company that assert allegations of a breach of fiduciary duty relating to this Agreement, violations of securities laws in connection with the Proxy Statement or otherwise arising out of the transactions contemplated by this Agreement, except to the extent that, in the cases of clauses (1), (2), (3), (4), (5) and (6) above, the same affect the Company and its Subsidiaries in a disproportionate manner when compared to other companies in the industry in which the Company primarily operates.

"Company Options" shall mean any options to purchase Shares outstanding under any of the Company Option Plans.

"Company Option Plans" shall mean the Company's 2001 Stock Option Plan, and the Company's 2009 Equity Incentive Plan and any other compensatory option plans or Contracts of the Company, including option plans or Contracts assumed by the Company pursuant to a merger or acquisition.

"Company Preferred Stock" shall mean shares of the undesignated preferred stock, no par value, of the Company.

"Company Products" shall mean any and all items, products and services marketed, sold, licensed, provided or distributed by Company and its Subsidiaries, and refers also to (i) all User Documentation and related technical documentation and (ii) all prior, present and future versions thereof (which includes works under development as of the date hereof and that the Company expects or intends to make available commercially after the date hereof).

"Confidential Technology" shall mean Source Code and other Technology embodied in or related to the Company Products that is preserved as a Trade Secret or is otherwise confidential.

"Continuing Employees" shall mean all employees of the Company or its Subsidiaries who are offered and timely accept employment by Parent or any Subsidiary of Parent, who continue their employment with the Company or its Subsidiaries at the request of Parent or, outside the U.S., who remain or become employees of the Company its Subsidiaries, Parent or any Subsidiary of Parent as required by applicable Laws.

"Contract" shall mean any contract, subcontract, agreement, commitment, note, bond, mortgage, indenture, lease, license, sublicense, permit, franchise or other instrument, obligation or binding arrangement or understanding of any kind or character, whether oral or in writing.

"Disposal Site" shall mean any landfill, disposal site, disposal agent, waste hauler or recycler of Hazardous Materials, or any real property other than a Business Facility receiving Hazardous Materials used or generated by a Business Facility.

"DOJ" shall mean the United States Department of Justice, or any successor thereto.

"DOL" shall mean the United States Department of Labor, or any successor thereto.

"Environmental Laws" shall mean all applicable Laws (including common laws, directives, guidance, rules, regulations, orders, treaties, statutes and codes) promulgated by any Governmental Entity which prohibit, regulate or control any Hazardous Material or any Hazardous Material Activity, including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Recovery and Conservation Act of 1976, the Federal Water Pollution Control Act, the Clean Air Act, the Hazardous Materials Transportation Act, the Clean Water Act, the Occupational Safety and Health Act, the European Union Directive 2002/96/EC and 2012/19/EU and all implementing Laws on waste electrical and electronic equipment ("WEEE Directive"), the European Union Directive 2002/95/EC and 2011/65/EU and all implementing Laws on the restriction on the use of hazardous substances ("EU RoHS Directive"), and the Administrative Measures on the Control of Pollution Caused by Electronic Information Products ("China RoHS"), all as amended at any time.

"Environmental Permit" is any approval, permit, registration, certification, license, clearance or consent required to be obtained from any private person or any Governmental Entity with respect to a Hazardous Materials Activity which is or was conducted by the Company or any of its Subsidiaries.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder, or any successor statue, rules and regulations thereto.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, or any successor statute, rules and regulations thereto.

"Exchange Ratio" means the quotient obtained by dividing (A) the Merger Consideration by (B) the average closing sales price for a share of Parent Common Stock, rounded to the nearest one-tenth of a cent, as reported on Nasdaq for the ten (10) most recent days ending on the last trading day immediately prior to the date on which the Effective Time occurs.

"FTC" shall mean the United States Federal Trade Commission, or any successor thereto.

"GAAP" shall mean generally accepted accounting principles, as applied in the United States.

"Governmental Entity" shall mean any government, any governmental or regulatory entity or body, department, commission, board, agency or instrumentality, and any court, tribunal or judicial body, in each case whether federal, state, county, provincial, and whether local or foreign.

"Hazardous Material" shall mean any material, chemical, substance or waste that has been designated by any Governmental Entity to be radioactive, toxic, hazardous, a pollutant, a contaminant, or otherwise a danger to health, reproduction or the environment, including the emission of carbon dioxide and other substances deemed by any Governmental Entity to contribute to global warming.

"Hazardous Materials Activity" shall mean the transportation, transfer, recycling, collection, labeling, storage, use, treatment, manufacture, removal, disposal, remediation, release, exposure of others to, sale, or distribution of any Hazardous Material or any product or waste containing a Hazardous Material, or product manufactured with ozone depleting substances, including, without limitation, any required labeling, payment of waste fees or charges (including so-called e-waste fees) and compliance with any recycling, product take-back or product content requirements, including the EU RoHS Directive, WEEE Directive, and China RoHS.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder, or any successor statute, rules and regulations thereto.

"Intellectual Property Rights" shall mean any or all of the following and all statutory and/or common law rights throughout the world in, arising out of, or associated therewith: (i) all United States and foreign patents and utility models and applications therefore (including provisional applications) and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations in part thereof (collectively, "Patents"); (ii) all inventions (whether or not patentable, reduced to practice or made the subject of a pending patent application), invention disclosures and improvements, all trade secrets, proprietary information, know-how and technology, confidential information and all documentation therefore ("Trade Secrets"); (iii) all works of authorship, copyrights (registered or otherwise), mask works, copyright and mask work registrations and applications and all other rights corresponding thereto throughout the world, and all rights therein provided by international treaties or conventions (collectively, "Copyrights"); (iv) all industrial designs and any registrations and applications therefore; (v) all trade names, logos, trademarks and service marks, whether or not registered, including all common law rights, and trademark and service mark registrations and applications, including but not limited to all marks registered in the United States Patent and Trademark Office, the Trademark Offices of the States and Territories of the United States of America, and the Trademark Offices of other nations throughout the world, and all rights therein provided by international treaties or conventions (collectively, "Trademarks"); (vi) all other rights in databases and data collections (including knowledge databases, customer lists and customer databases) and Software and Technology; (viii) all rights to Uniform Resource Locators, Web site addresses and domain names (collectively, "Domain Names"); (ix) all Moral Rights, however denominated; and (x) any similar, corresponding or equivalent rights to any of the foregoing.

"IRS" shall mean the United States Internal Revenue Service, or any successor thereto.

"Laws" shall mean any and all applicable federal, state, local, municipal, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, directive, code, edict, decree, rule, regulation, ruling or requirement issues, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity.

"Legal Proceeding" shall mean any action, claim, suit, litigation, proceeding (public or private), criminal prosecution, audit or investigation by or before any Governmental Entity.

"Liabilities" shall mean any liability, indebtedness, obligation or commitment of any kind (whether accrued, absolute, contingent, matured, unmatured or otherwise and whether or not required to be recorded or reflected on a balance sheet under GAAP).

"Lien" shall mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

"Moral Rights" means any right to claim authorship to or to object to any distortion, mutilation, or other modification or other derogatory action in relation to a work, whether or not such would be prejudicial to the author's reputation, and any similar right, such as recognition of authorship or access to work, existing under common or statutory law of any country in the world or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral right."

"Nasdaq" shall mean the Nasdaq Global Market, or any successor inter-dealer quotation system operated by Nasdaq Stock Market, Inc., or any successor thereto or affiliated quotation system on which shares of the Company Common Stock are listed.

"Object Code" shall mean computer software, substantially or entirely in binary form, which is intended to be directly executable by a computer after suitable processing and linking but without the intervening steps of compilation or assembly.

"Order" shall mean any judgment, decision, decree, injunction, ruling, writ, assessment or order of any Governmental Entity that is binding on any Person or its property under applicable Laws.

"Parent Common Stock" shall mean shares of common stock, par value $0.001 per share, of Parent.

"Parent Material Adverse Effect" shall mean any Change that materially impedes or would reasonably be expected to materially impede the ability of Parent or Merger Sub to consummate the transactions contemplated by this Agreement in accordance with the terms hereof or applicable Law.

"Permitted Liens" shall mean (i) such Liens as are set forth in Section 3.16(f) of the Company Disclosure Letter, (ii) mechanics', carriers', workmen's, repairmen's or other like Liens arising or incurred in the ordinary course of business that are being contested in good faith by the Company by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP on the Financial Statements, Liens arising under original purchase price conditional sales contracts, personal property leases and equipment leases with third parties entered into in the ordinary course of business and liens for Taxes that are not due and payable or being contested in good faith by the Company by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP on the Financial Statements, (iii) Liens, if any, that individually or in the aggregate, do not materially impair the continued use and operation of the Company's assets or business, (iv) easements, covenants, rights-of-way, and other similar encumbrances of record, and (v) any conditions

that are shown by a current, accurate survey of any Owned Real Property made available to Parent prior to the date hereof or physical inspection of any Owned Real Property made by Parent prior to the date hereof, (vi) (A) zoning, land use, building and other similar ordinances and governmental regulations, (B) Liens that have been placed by any developer, landlord or other third party on property over which the Company has easement rights or on any Leased Real Property and subordination or similar agreements relating thereto and (C) unrecorded easements, covenants, rights of way and other similar restrictions.

"Person" shall mean any individual, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization, entity or Governmental Entity.

"Public Software" means any Software that contains, includes, incorporates, or has instantiated therein, or is derived in any manner (in whole or in part) from, any software that is distributed pursuant to a license that (1) requires the licensee to distribute or provide access to the source code of such software or any portion thereof when the object code is distributed, (2) requires the licensee to distribute the software or any portion thereof for free or at some reduced price, or (3) requires that other software or any portion thereof combined with, linked to, or based upon such software ("Combined Software") be licensed pursuant to the same license or requires the distribution of all or any portion of such Combined Software for free or at some reduced price or otherwise adversely affects the Company's or a Subsidiary's exclusive ownership of such Combined Software. The term "Public Software" includes, without limitation, software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU's General Public License (GPL) or Lesser/Library GPL (LGPL); (ii) the Artistic License (e.g., PERL); (iii) the Mozilla Public License; (iv) the Netscape Public License; (iv) the Sun Community Source License (SCSL); (vi) the Sun Industry Standards License (SISL); (vii) the BSD License; and (viii) the Apache License.

"Registered IP" shall mean all United States, international and foreign: (i) Patents; (ii) Trademarks; (iii) Copyrights; (iv) Domain Names; and (v) any other Intellectual Property Rights that are the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded by any state, government or other public legal authority.

"Sarbanes-Oxley Act" shall mean the Sarbanes-Oxley Act of 2002.

"SEC" shall mean the United States Securities and Exchange Commission, or any successor thereto.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, or any successor statute, rules or regulations thereto.

"Shrink-Wrap Code" shall mean generally commercially available Object Code where available for an average cost of not more than $1,000 for a perpetual license for a single user or work station (or $50,000 in the aggregate for all users and work stations) that is used by the Company or its Subsidiaries but not incorporated into any Company Products and that has not been customized for use by Company or its Subsidiaries.

"Software" shall mean any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in Source Code or Object Code, (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing and (iv) all User Documentation, including user manuals and training materials, relating to any of the foregoing.

"Source Code" shall mean computer software and code, in form other than Object Code or machine readable form, including related programmer comments and annotations, help text, data and data structures, instructions and procedural, object-oriented and other code, which may be printed out or displayed in human readable form.

"Subsidiary" of any Person shall mean (i) a corporation more than fifty percent (50%) of the combined voting power of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one of more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries thereof, (ii) a partnership of which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, is the general partner and has the power to direct the policies, management and affairs of such partnership, (iii) a limited liability company of which such Person or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, is the managing member and has the power to direct the policies, management and affairs of such company or (iv) any other Person (other than a corporation, partnership or limited liability company) in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof.

"Superior Proposal" shall mean any *bona fide*, written Acquisition Proposal that did not result from a breach of Section 6.1 (i) which, if any cash consideration is involved, is not subject to any financing contingencies (and if financing is required, such financing is then fully committed to the third party making such Acquisition Proposal pursuant to a customary commitment letter from a nationally recognized financial institution) and (ii) with respect to which the Company Board determines in good faith, after consultation with its financial advisor of nationally recognized standing and its outside legal counsel, and after taking into account (A) all legal, financial, regulatory and other aspects of such Acquisition Proposal (including the Person or group of related Persons making the proposal), (B) all of the terms and conditions of such Acquisition Proposal (including any conditions, potential time delays

or other risks to the consummation of such Acquisition Proposal), and (C) any counter offer or proposal made by Parent pursuant hereto and within the time period required in Section 6.2(b) hereof, would be more favorable to the Company's shareholders from a financial point of view than the transactions contemplated hereby; *provided*, that for purposes of this definition, each reference in the definition of "Acquisition Transaction" to "15%" or "85%" shall be deemed to be references to "50%".

"Tax" shall mean (i) any and all U.S. federal, state, local and non-U.S. taxes, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, goods and services, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts, (ii) any Liability for the payment of any amounts of the type described in clause (i) as a result of being or ceasing to be a member of an affiliated, consolidated, combined or unitary group for any period (including any Liability under Treasury Regulation Section 1.1502-6 or any comparable provision of foreign, state or local Law (including any arrangement for group or consortium relief or similar arrangement)) and (iii) any Liability for the payment of any amounts of the type described in clause (i) or (ii) as a result of any express or implied obligation to indemnify any other Person or as a result of any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any Liability for taxes of a predecessor or transferor or by operation of law.

"Tax Returns" shall mean all returns, declarations, estimates, reports, statements and other documents required to be filed in respect of any Taxes.

"Technology" shall mean all tangible items related to, constituting, disclosing or embodying any or all of the following: technology, information, know how, works of authorship, trade secrets, inventions (whether or not patented or patentable), show how, techniques, design rules, algorithms, routines, models, methodologies, Software, computer programs (whether Source Code or Object Code), files, compilations, including any and all data and collections of data, databases processes, prototypes, schematics, netlists, test methodologies, development work and tools and all User Documentation.

"User Documentation" shall mean explanatory and informational materials concerning the Company Products, in printed or electronic format, which Company or its Subsidiaries has released for distribution to end users or customers with such Company Products, which may include manuals, descriptions, user and/or installation instructions, diagrams, printouts, listings, flow-charts and training materials, contained on visual media such as paper or photographic film, or on other physical storage media in machine readable form.

1.2 Additional Definitions

The following capitalized terms shall have the respective meanings ascribed thereto in the respective sections of this Agreement set forth opposite each of the capitalized terms below:

Term	Section Reference
Agreement	Preamble
Agreement of Merger	2.2
Antitrust Restraint	6.5(d)
Assets	3.21
Assumed Option	6.11(b)
California Secretary of State	2.2
Cancelled Option	6.11(a)
Capitalization Representation	7.2(a)
Certificates	2.8(c)
Change	1.1
Changes	1.1
China RoHS	1.1
Closing	2.3
Closing Date	2.3
Collective Bargaining Agreements	3.19(a)
Combined Software	1.1
Company	Preamble
Company Board	Recitals
Company Board Recommendation	6.2(a)
Company Board Recommendation Change	6.2(b)
Company Common Stock	Recitals
Company Disclosure Letter	Article III
Company Form 10-K	Article III
Company IP Agreements	3.22(f)
Company Registered IP	3.22(b)
Company Representatives	6.1(b)
Company Securities	3.4(c)
Company Shareholders' Meeting	6.3
Confidentiality Agreement	6.9
Consent	3.5(b)
Copyrights	1.1
D&O Insurance	6.13(b)
Demand Notice	2.7(c)(i)
Dissenting Shares	2.7(c)(i)
Domain Names	1.1
EAR	3.23(a)
ECCNs	3.23(b)
Effective Time	2.2
Employee Plans	3.18(a)
ERISA Affiliate	3.18(a)

Term	Section Reference
EU RoHS Directive	1.1
Exchange Fund	2.8(b)
Export Controls	3.23(a)
FIN 48	3.16(n)
Foreign Employees	3.18(l)
Funded International Employee Plan	3.18(b)
Import Restrictions	3.23(a)
Indemnified Parties	6.13(a)
International Employee Plans	3.18(a)
ITAR	3.23(a)
Leased Real Property	3.20(b)
Leases	3.20(b)
Material Contract	3.11(a)
Maximum Annual Premium	6.13(b)
Merger	Recitals
Merger Consideration	Recitals
Merger Sub	Preamble
NQDCP	5.2(g)
OFAC	3.23(a)
Option Consideration	6.11(a)
Owned Real Property	3.20(a)
Parent	Preamble
Patents	1.1
Payment Agent	2.8(a)
Permits	3.13
Proxy Statement	3.8
Real Property	3.20(b)
Requisite Shareholder Approval	3.3(c)
Retirement Plan Termination Date	6.12(a)
Retirement Plans	6.12(a)
SEC Reports	3.6
Shares	Recitals
Significant Customer	3.30(a)
Significant Supplier	3.30(b)
Specified Representations	7.2(a)
Subsidiary Securities	3.2(c)
Surviving Corporation	2.1
Tail Policy	6.13(b)
Takeover Laws	3.29
Tax Incentive	3.16(k)
Termination Date	8.1(c)

Term	Section Reference
Termination Fee Amount	8.3(b)(i)
Third Party Leases	3.20(b)
Trade Secrets	1.1
Trademarks	1.1
Triggering Event	8.1(e)(ii)
USML	3.23(b)
Voting Agreement	Recitals
Voting Agreements	Recitals
Warranties	3.22(s)
WEEE Directive	1.1

1.3 Certain Interpretations.

(a) Unless otherwise indicated, all references herein to Sections, Articles, Annexes, Exhibits or Schedules, shall be deemed to refer to Sections, Articles, Annexes, Exhibits or Schedules of or to this Agreement, as applicable.

(b) Unless otherwise indicated, the words "include," "includes" and "including," when used herein, shall be deemed in each case to be followed by the words "without limitation."

(c) The table of contents and headings set forth in this Agreement are for convenience of reference purposes only and shall not affect or be deemed to affect in any way the meaning or interpretation of this Agreement or any term or provision hereof.

(d) When reference is made herein to a Person, such reference shall be deemed to include all direct and indirect Subsidiaries of such Person unless otherwise indicated or the context otherwise requires.

(e) Unless otherwise indicated, all references herein to the Subsidiaries of a Person shall be deemed to include all direct and indirect Subsidiaries of such Person unless otherwise indicated or the context otherwise requires.

(f) Unless otherwise specifically provided, all references in this Agreement to "Dollars" or "$" shall mean means United States Dollars.

(g) As used in this Agreement, the singular or plural number shall be deemed to include the other whenever the context so requires. Article, Section, clause and Schedule references contained in this Agreement are references to Articles, Sections, clauses and Schedules in or to this Agreement, unless otherwise specified.

(h) The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application

of any Law or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

ARTICLE II
THE MERGER

2.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement and the applicable provisions of California Law, at the Effective Time, Merger Sub shall be merged with and into the Company, the separate corporate existence of Merger Sub shall thereupon cease and the Company shall continue as the surviving corporation. The Company, as the surviving corporation of the Merger, is sometimes hereinafter referred to as the "Surviving Corporation."

2.2 The Effective Time. Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date, Parent, Merger Sub and the Company shall cause the Merger to be consummated under California Law by filing an agreement of merger in customary form and substance (the "Agreement of Merger") with the Secretary of State of the State of California (the "California Secretary of State") in accordance with the applicable provisions of California Law (the time of such filing and acceptance by the California Secretary of State, or such later time as may be agreed in writing by Parent, Merger Sub and the Company and specified in the Agreement of Merger, being referred to herein as the "Effective Time").

2.3 The Closing. The consummation of the Merger shall take place at a closing (the "Closing") to occur at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, One Market Plaza, Spear Tower, San Francisco, California, 94105, on a date and at a time to be agreed upon by Parent, Merger Sub and the Company, which date shall be no later than the second (2nd) Business Day after the satisfaction or waiver (to the extent permitted hereunder) of the last to be satisfied or waived of the conditions set forth in Article VII (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver (to the extent permitted hereunder), of such conditions), or at such other location, date and time as Parent, Merger Sub and the Company shall mutually agree upon in writing (the date upon which the Closing shall actually occur pursuant hereto being referred to herein as the "Closing Date").

2.4 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement and the applicable provisions of California Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all of the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, Liabilities and duties of the Company and Merger Sub shall become the debts, Liabilities and duties of the Surviving Corporation.

2.5 Articles of Incorporation and Bylaws.

(a) Articles of Incorporation. At the Effective Time, the articles of incorporation of the Company shall be amended and restated in its entirety to read as set forth on Exhibit A, and such amended and restated articles of incorporation shall become the articles

of incorporation of the Surviving Corporation until thereafter amended in accordance with the applicable provisions of California Law and such articles of incorporation

(b) Bylaws. At the Effective Time, the bylaws of the Company shall be amended and restated in their entirety to read as set forth on Exhibit B, and shall become the bylaws of the Surviving Corporation until thereafter amended in accordance with the applicable provisions of California Law, the articles of incorporation of the Surviving Corporation and such bylaws.

2.6 Directors and Officers.

(a) Directors of the Surviving Corporation. At the Effective Time, the directors of the Company shall hereby be deemed to have resigned, and the directors of the Merger Sub immediately prior to the Effective Time shall become the directors of the Surviving Corporation, each to hold office in accordance with the articles of incorporation and bylaws of the Surviving Corporation until their respective successors are duly elected or appointed and qualified.

(b) Officers of the Surviving Corporation. At the Effective Time, the officers of the Company shall hereby be deemed to have resigned, and the officers of the Merger Sub immediately prior to the Effective Time shall become the officers of the Surviving Corporation, each to hold office in accordance with the articles of incorporation and bylaws of the Surviving Corporation until their respective successors are duly appointed.

(c) Directors of Company Subsidiaries. At the Effective Time, the directors of each Company Subsidiary shall hereby be deemed to have resigned, and the directors of Merger Sub immediately prior to the Effective Time shall become the directors of each Company Subsidiary, each to hold office in accordance with the articles of incorporation and bylaws of the Company Subsidiary until their respective successors are duly elected or appointed and qualified.

(d) Officers of Company Subsidiaries. At the Effective Time, the officers of each Company Subsidiary shall hereby be deemed to have resigned, and the officers of Merger Sub immediately prior to the Effective Time shall become the officers of each Company Subsidiary, each to hold office in accordance with the articles of incorporation and bylaws of the Company Subsidiary until their respective successors are duly elected or appointed and qualified.

2.7 Effect on Capital Stock.

(a) Capital Stock. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company, or the holders of any of the following securities, the following shall occur:

(i) Company Common Stock. Each Share issued and outstanding immediately prior to the Effective Time (other than (A) Shares owned by Parent, Merger Sub or the Company, or by any direct or indirect wholly-owned Subsidiary of Parent, Merger Sub or the Company, in each case immediately prior to the Effective Time and (B) Dissenting Shares) shall be canceled and extinguished and automatically converted into the right to receive cash in an amount equal to the Merger Consideration, without interest thereon, upon the surrender of the certificate representing such Share in the manner provided in Section 2.8 (or in the case of a lost, stolen or destroyed certificate, upon delivery of an affidavit (and bond, if required) in the manner provided in Section 2.10).

(ii) Owned Company Common Stock. Each Share owned by Parent, Merger Sub or the Company, or by any direct or indirect wholly-owned Subsidiary of Parent, Merger Sub or the Company, in each case immediately prior to the Effective Time shall be cancelled and extinguished without any conversion thereof or consideration paid therefor.

(iii) Capital Stock of Merger Sub. Each share of common stock, no par value, of Merger Sub that is issued and outstanding immediately prior to the Effective Time shall be converted into one (1) validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation. Each certificate evidencing ownership of such shares of common stock of Merger Sub shall thereafter evidence ownership of shares of common stock of the Surviving Corporation.

(b) Adjustment to Merger Consideration. The Merger Consideration shall be adjusted appropriately to reflect the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into Shares), cash dividends, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Shares occurring on or after the date hereof and prior to the Effective Time.

(c) Statutory Rights of Appraisal.

(i) Notwithstanding anything to the contrary set forth in this Agreement, Shares that are issued and outstanding immediately prior to the Effective Time and held by holders of Shares that have made written demand upon the Company for the purchase of such Shares and payment to the holders in cash of the "fair market value" of such Shares (the "Demand Notice") and perfected their rights in accordance with Chapter 13 of the CGCL (collectively, "Dissenting Shares") shall not be converted into, or represent the right to receive, the Merger Consideration pursuant to this Section 2.7. Such holders of Shares shall be entitled to only such rights as are granted by Chapter 13 of the CGCL, except that all such holders that have failed to perfect or who shall have effectively waived, withdrawn or lost their rights under Chapter 13 of the CGCL shall thereupon be deemed to have been converted into, and to have become exchangeable for, as of the Effective Time, the right to receive the Merger Consideration, without any interest thereon, upon surrender of the certificate or certificates that formerly evidenced such Shares in the manner provided in Section 2.8.

(ii) The Company shall give Parent (A) prompt notice of any Demand Notice received by the Company, withdrawals thereof, and any other instruments served pursuant to Chapter 13 of the CGCL and received by the Company in respect of Dissenting Shares and (B) the opportunity to direct all negotiations and proceedings with respect to the exercise of any rights of the holder of Dissenting Shares under Chapter 13 of the CGCL. The Company shall not, except with the prior written consent of Parent, make any payment with respect to any such exercise of any such rights of the holder of Dissenting Shares under Chapter 13 of the CGCL or settle or offer to settle any such demands for payment in respect of any such exercise of any such rights of the holder of Dissenting Shares under Chapter 13 of the CGCL.

(d) Company Options. At the Effective Time, each Company Option then outstanding under any of the Company Option Plans shall be treated in accordance with the provisions of Section 6.11.

2.8 Exchange of Certificates.

(a) Payment Agent. Prior to the Effective Time, Parent shall select a bank or trust company reasonably acceptable to the Company to act as the payment agent for the Merger (the "Payment Agent").

(b) Exchange Fund. Promptly following the Effective Time, Parent shall deposit (or cause to be deposited) with the Payment Agent, for payment to the holders of Shares pursuant to the provisions of this Article II, an amount of cash equal to the product obtained by multiplying (x) the Merger Consideration and (y) the aggregate number of Shares issued and outstanding immediately prior to the Effective Time (excluding Shares then owned by Parent, Merger Sub, the Company, or any direct or indirect wholly-owned Subsidiary of Parent, Merger Sub or the Company immediately prior to the Effective Time) (such cash amount being referred to herein as the "Exchange Fund").

(c) Payment Procedures. Promptly following the Effective Time, Parent and Merger Sub shall cause the Payment Agent to mail to each holder of record (as of immediately prior to the Effective Time) of a certificate or certificates (the "Certificates"), which immediately prior to the Effective Time represented outstanding Shares (other than Dissenting Shares) a letter of transmittal in customary form (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Payment Agent) and instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration payable in respect thereof pursuant to the provisions of this Article II. Upon surrender of Certificates for cancellation to the Payment Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, the holders of such Certificates shall be entitled to receive in exchange therefor the Merger Consideration payable in respect thereof pursuant to the provisions of this Article II, and the Certificates so surrendered shall forthwith be canceled. The Payment Agent shall accept such Certificates upon compliance with such reasonable terms and conditions as the Payment Agent may impose to effect an orderly exchange thereof in

accordance with normal exchange practices. No interest shall be paid or accrued for the benefit of holders of the Certificates on the Merger Consideration payable upon the surrender of such Certificates pursuant to this Section 2.8. Until so surrendered, outstanding Certificates shall be deemed from and after the Effective Time, to evidence only the right to receive the Merger Consideration payable in respect thereof pursuant to the provisions of this Article II.

(d) Transfers of Ownership. In the event that a transfer of ownership of Shares is not registered in the stock transfer books or ledger of the Company, or if Merger Consideration is to be paid in a name other than that in which the Certificates surrendered in exchange therefor are registered in the stock transfer books or ledger of the Company, the Merger Consideration may be paid to a Person other than the Person in whose name the Certificate so surrendered is registered in the stock transfer books or ledger of the Company only if such Certificate is properly endorsed and otherwise in proper form for surrender and transfer and the Person requesting such payment has paid to Parent (or any agent designated by Parent) any transfer or other Taxes required by reason of the payment of Merger Consideration to a Person other than the registered holder of such Certificate, or established to the satisfaction of Parent (or any agent designated by Parent) that such transfer or other Taxes have been paid or are otherwise not payable.

(e) Required Withholding. Each of the Payment Agent, Parent and the Surviving Corporation shall be entitled to deduct and withhold from any amounts payable pursuant to this Agreement such amounts as may be required to be deducted or withheld therefrom under U.S. federal or state, local or non-U.S. Law. To the extent that such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(f) No Liability. Notwithstanding anything to the contrary set forth in this Agreement, none of the Payment Agent, Parent, the Surviving Corporation or any other party hereto shall be liable to a holder of Shares for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar Law.

(g) Unclaimed Property. Subject to applicable unclaimed property Laws, Parent will cause the Payment Agent to initiate unclaimed property reporting services for unclaimed Shares and related cash distributions that may be deemed abandoned or otherwise subject to applicable unclaimed property Law. Such services may include preparation of unclaimed property reports, delivery of abandoned property to various states, completion of required due diligence notifications, responses to inquiries from owners, and such other services as may reasonably be necessary to comply with applicable unclaimed property Laws.

2.9 No Further Ownership Rights in Company Common Stock. From and after the Effective Time, all Shares shall no longer be outstanding and shall automatically be cancelled, retired and cease to exist, and each holder of a Certificate theretofore representing any Shares (other than Dissenting Shares) shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration payable therefor upon the surrender thereof in accordance with the provisions of Section 2.8. The Merger Consideration paid in

accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of the Company Common Stock. From and after the Effective Time, there shall be no further registration of transfers on the records of the Surviving Corporation of Shares that were issued and outstanding immediately prior to the Effective Time, other than transfers to reflect, in accordance with customary settlement procedures, trades effected prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article II.

2.10 Lost, Stolen or Destroyed Certificates. In the event that any Certificates shall have been lost, stolen or destroyed, the Payment Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, the Merger Consideration payable in respect thereof pursuant to Section 2.7; *provided, however*, that Parent or the Payment Agent may, in their discretion and as a condition precedent to the payment of such Merger Consideration, require the owners of such lost, stolen or destroyed Certificates to deliver a bond in such sum as they may reasonably direct as indemnity against any claim that may be made against Parent, the Surviving Corporation or the Payment Agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

2.11 Taking of Necessary Action; Further Action. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company and Merger Sub, the directors and officers of the Surviving Corporation shall take all such lawful and necessary action on behalf of the Company and Merger Sub.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except, with respect to any Section of this Article III, as set forth in the section of the disclosure letter delivered by the Company to Parent on the date of this Agreement (the "Company Disclosure Letter") that specifically relates to such Section or in another section of the Company Disclosure Letter to the extent it is readily apparent from the text of such disclosure that such disclosure is applicable to such Section, the Annual Report on Form 10-K of the Company for the fiscal year ended March 30, 2013 (the "Company Form 10-K") and the SEC Reports filed after the Company Form 10-K and prior to February 1, 2014 (other than disclosures in the "Risk Factors" or "Forward-Looking Statements" sections of such reports, other disclosures that are similarly non-specific or are predictive or forward-looking in nature and excluding any exhibits incorporated by reference in such reports), the Company hereby represents and warrants to Parent and Merger Sub as follows:

3.1 Organization and Standing. The Company is a corporation duly organized, validly existing and in good standing under California Law. Each of the Company's Subsidiaries is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its respective organization (to the extent the "good standing" concept is

applicable in the case of any jurisdiction outside the United States). Each of the Company and its Subsidiaries has the requisite corporate power and authority to carry on its respective business as it is presently being conducted and to own, lease or operate its respective properties and assets. Each of the Company and its Subsidiaries is duly qualified to do business and is in good standing in each jurisdiction where the character of its properties owned or leased or the nature of its activities make such qualification necessary (to the extent the "good standing" concept is applicable in the case of any jurisdiction outside the United States), except where the failure to be so qualified or in good standing would not have, individually or in the aggregate, a Company Material Adverse Effect. The Company has delivered or made available to Parent complete and correct copies of (a) the certificates of incorporation and bylaws or other constituent documents, as amended to date, of the Company and its Subsidiaries and (b) the minutes (or, in the case of draft minutes, the most recent drafts thereof) of all meetings of the shareholders, the Company Board and each committee of the Company Board since January 1, 2009. Neither the Company nor any of its Subsidiaries is in violation of its articles of incorporation, bylaws or other applicable constituent documents.

3.2 Subsidiaries.

(a) Section 3.2(a) of the Company Disclosure Letter contains a complete and accurate list of the name, jurisdiction of organization and function (i.e., sales, manufacturing, administration, etc.) of each Subsidiary of the Company. Except for the Company's Subsidiaries, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interest in, any Person.

(b) All of the outstanding capital stock of, or other equity or voting interest in, each Subsidiary of the Company (i) have been duly authorized, validly issued and are fully paid and nonassessable and (ii) are owned, directly or indirectly, by the Company, free and clear of all Liens and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other equity or voting interest) that would prevent the operation by the Surviving Corporation of such Subsidiary's business as presently conducted.

(c) There are no outstanding (i) securities of the Company or any of its Subsidiaries convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, any Subsidiary of the Company, (ii) options, warrants, rights or other commitments or agreements to acquire from the Company or any of its Subsidiaries, or that obligate the Company or any of its Subsidiaries to issue, any capital stock of, or other equity or voting interest in, or any securities convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, any Subsidiary of the Company, (iii) obligations of the Company to grant, extend or enter into any subscription, warrant, right, convertible or exchangeable security or other similar agreement or commitment relating to any capital stock of, or other equity or voting interest (including any voting debt) in, any Subsidiary of the Company (the items in clauses (i), (ii) and (iii), together with the capital stock of the Subsidiaries of the Company, being referred to collectively as "Subsidiary Securities") or (iv) other obligations by the Company or any of its Subsidiaries to make any payments based

on the price or value of any Subsidiary Securities. There are no Contracts of any kind which obligate the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any outstanding Subsidiary Securities.

3.3 Authorization.

(a) The Company has all requisite power and authority to execute and deliver this Agreement and subject, in the case of the Merger to obtaining the Requisite Shareholder Approval, to consummate the transactions contemplated hereby and to perform its obligations hereunder. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby (including the Merger) have been duly authorized by all necessary corporate action on the part of the Company and no additional corporate proceedings on the part of the Company are necessary to authorize this Agreement or the consummation of the transactions contemplated hereby (including the Merger), other than in the case of the Merger obtaining the Requisite Shareholder Approval. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Parent and Merger Sub, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability (a) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting or relating to creditors' rights generally and (b) is subject to general principles of equity.

(b) At a meeting duly called and held prior to the date hereof, the Company Board has unanimously (i) determined that this Agreement and the transactions contemplated hereby, including the Merger, are advisable, (ii) unanimously determined that this Agreement and the transactions contemplated hereby, including the Merger, are fair to and in the best interests of the Company and its shareholders, (iii) approved this Agreement and the transactions contemplated hereby, including the Merger, and the Voting Agreements, and (iv) resolved to recommend that the holders of Shares approve this Agreement in accordance with the applicable provisions of California Law.

(c) The affirmative vote of the holders of a majority of the outstanding Shares, voting together as a class (the "Requisite Shareholder Approval"), is the only vote of the holders of any class or series of Company Capital Stock necessary (under applicable Laws or otherwise) to approve this Agreement and the Merger.

3.4 Capitalization.

(a) The authorized capital stock of the Company consists of (i) thirty million (30,000,000) Shares and (ii) ten million (10,000,000) shares of Company Preferred Stock. As of the close of business on the Business Day immediately prior to the date of this Agreement: (A) 11,426,781 Shares were issued and outstanding and (B) no shares of Company Preferred Stock were issued and outstanding. All outstanding Shares are validly issued, fully paid, nonassessable and free of any preemptive rights. Since the close of business on the Business Day immediately prior to the date of this Agreement, the Company has not issued

any shares of Company Capital Stock other than pursuant to the exercise of Stock Options granted under a Company Option Plan or issued under the Company Employee Stock Purchase Plan.

(b) Section 3.4(b) of the Company Disclosure Letter specifies (i) the number of Shares that are subject to issuance pursuant to Company Options outstanding as of the close of business on December 28, 2013 and (ii) the number of Company Options with an exercise price in excess of the Merger Consideration. As of December 28, 2013, 397,131 Shares were reserved for future issuance pursuant to stock awards not yet granted under the Company Option Plans and, since December 28, 2013, the Company has not granted, committed to grant or otherwise created or assumed any obligation with respect to any Stock Options, other than as permitted by Section 5.2(b). All Company Options have been validly issued and properly approved by the Company Board in accordance with all applicable Laws and the Company Option Plans.

(c) Except as set forth in this Section 3.4, there are (i) no outstanding shares of capital stock of, or other equity or voting interest in, the Company, (ii) no outstanding securities of the Company convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, the Company, (iii) no outstanding options, warrants, rights or other commitments or agreements to acquire from the Company, or that obligates the Company to issue, any capital stock of, or other equity or voting interest in, or any securities convertible into or exchangeable for shares of capital stock of, or other equity or voting interest in, the Company, (iv) no obligations of the Company to grant, extend or enter into any subscription, warrant, right, convertible or exchangeable security or other similar agreement or commitment relating to any capital stock of, or other equity or voting interest (including any voting debt) in, the Company (the items in clauses (i), (ii), (iii) and (iv), together with the capital stock of the Company, being referred to collectively as "Company Securities") and (v) no other obligations by the Company or any of its Subsidiaries to make any payments based on the price or value of the Company Securities. There are no outstanding Contracts of any kind which obligate the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Company Securities.

(d) Neither the Company nor any of its Subsidiaries is a party to any Contracts restricting the transfer of, relating to the voting of, requiring registration of, or granting any preemptive rights, anti-dilutive rights or rights of first refusal or similar rights with respect to any securities of the Company.

3.5 Non-contravention; Required Consents.

(a) The execution, delivery or performance by the Company of this Agreement, the consummation by the Company of the transactions contemplated hereby (including the Merger) and the compliance by the Company with any of the provisions hereof do not and will not (i) violate or conflict with any provision of the articles of incorporation or bylaws or other constituent documents of the Company or any of its Subsidiaries, (ii) subject to obtaining such Consents set forth in Section 3.5(a)(ii) of the Company Disclosure Letter, violate, conflict with, or result in the breach of or constitute a default (or an event which with

notice or lapse of time or both would become a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, any material Contract to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their material properties or assets may be bound, (iii) assuming compliance with the matters referred to in Section 3.5(b) and, in the case of the consummation of the Merger, subject to obtaining the Requisite Shareholder Approval, violate or conflict with any Law or Order applicable to the Company or any of its Subsidiaries or by which any of their properties or assets are bound or (iv) result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries, except in the case of each of clauses (ii), (iii) and (iv) above, for such violations, conflicts, breaches, defaults, terminations, accelerations or Liens which, individually or in the aggregate, would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, and would not reasonably be expected to materially impede the ability of the Company to consummate the transactions contemplated by this Agreement in accordance with the terms hereof or applicable Law.

(b) No consent, approval, Order or authorization of, or filing or registration with, or notification to (any of the foregoing being a "Consent"), any Governmental Entity is required on the part of the Company or any of its Subsidiaries in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby (including the Merger), except (i) the filing and recordation of the Agreement of Merger with the California Secretary of State as required by the CGCL, (ii) such filings and approvals as may be required by any federal or state securities Laws, including compliance with any applicable requirements of the Exchange Act, (iii) compliance with any applicable requirements of the HSR Act and any applicable foreign antitrust, competition or merger control Laws and (iv) such other Consents, the failure of which to obtain, individually or in the aggregate, would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, and would not reasonably be expected to materially impede the ability of the Company to consummate the transactions contemplated by this Agreement in accordance with the terms hereof or applicable Law.

3.6 SEC Reports. Since January 1, 2010, the Company has filed or furnished (as applicable) all forms, reports, schedules, statements and documents with the SEC that have been required to be so filed or furnished (as applicable) by it under applicable Laws prior to the date hereof, and, after the date of this Agreement and until the Effective Time, the Company will file all forms, reports, schedules, statements and documents with the SEC that are required to be filed by it under applicable Laws prior to such time (all such forms, reports and documents, together with any other forms, reports or other documents filed or furnished (as applicable) by the Company with the SEC at or prior to the Effective Time that are not required to be so filed or furnished, the "SEC Reports"). Each SEC Report complied, or will comply, as the case may be, as of its filing date, as to form in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be, and with all applicable provisions of the Sarbanes-Oxley Act, each as in effect on the date such SEC Report was, or will be, filed. As of its filing date (or, if amended or superseded by a filing prior to

the date of this Agreement, on the date of such amended or superseded filing), each SEC Report did not, and will not, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Since January 1, 2010, neither the Company nor any of its Subsidiaries has received from the SEC or any other Governmental Entity any written comments or questions with respect to any of the SEC Reports (including the financial statements included therein) or any registration statement filed by any of them with the SEC or any notice from the SEC or other Governmental Entity that such SEC Reports (including the financial statements included therein) or registration statements are being reviewed or investigated. None of the Company's Subsidiaries is required to file any forms, reports, schedules, statements or other documents with the SEC. No executive officer of the Company has failed to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act with respect to any SEC Report, except as disclosed in certifications filed with the SEC Reports. Neither the Company nor any of its executive officers has received notice from any Governmental Entity challenging or questioning the accuracy, completeness, form or manner of filing of such certifications.

3.7 Financial Statements.

(a) The consolidated financial statements of the Company and its Subsidiaries contained in the SEC Reports at the time filed were prepared in accordance with GAAP then in effect consistently applied by the Company during the periods and at the dates involved (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by the SEC for filings on Form 10-Q under the Exchange Act), and fairly presented in all material respects the consolidated financial position of the Company and its Subsidiaries as of the dates thereof and the consolidated results of operations and cash flows for the periods then ended, except that the unaudited interim financial statements were subject to normal year-end adjustments which were not material in amount or effect.

(b) The Company and each of its Subsidiaries have established and maintain, adhere to and enforce a system of internal accounting controls which are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP, including policies and procedures that (i) require the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company and its Subsidiaries, (ii) provide assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company and its Subsidiaries are being made only in accordance with appropriate authorizations of management and the Company Board and (iii) provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company and its Subsidiaries. Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, the Company's independent auditors has identified or been made aware of (A) any significant deficiency or material weakness in the system of internal accounting controls utilized by the Company and its Subsidiaries, (B) any fraud, whether or not material, that involves the Company's management or other employees who have a role

in the preparation of financial statements or the internal accounting controls utilized by the Company and its Subsidiaries or (C) any claim or allegation regarding any of the foregoing.

(c) Neither the Company nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, partnership agreement or any similar Contract (including any Contract relating to any transaction, arrangement or relationship between or among the Company or any of its Subsidiaries, on the one hand, and any unconsolidated affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand (such as any arrangement described in Section 303(a)(4) of Regulation S-K of the SEC)) where the purpose or effect of such arrangement is to avoid disclosure of any material transaction involving the Company or any its Subsidiaries in the Company's consolidated financial statements.

(d) Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any director, officer, employee, auditor, accountant, consultant or representative of the Company or any of its Subsidiaries has received or otherwise had or obtained knowledge of any substantive complaint, allegation, assertion or claim, whether written or oral, that the Company or any of its Subsidiaries has engaged in questionable accounting or auditing practices. No current or former attorney representing the Company or any of its Subsidiaries has reported evidence of a material violation of securities Laws, breach of fiduciary duty or similar violation by the Company or any of its officers, directors, employees or agents to the Company Board or any committee thereof or to any director or executive officer of the Company.

(e) To the knowledge of the Company, no employee of the Company or any of its Subsidiaries has provided or is providing information to any law enforcement agency regarding the commission or possible commission of any crime or the violation or possible violation of any applicable Laws of the type described in Section 806 of the Sarbanes-Oxley Act by the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any director, officer, employee, contractor, subcontractor or agent of the Company or any such Subsidiary has discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against an employee of the Company or any of its Subsidiaries in the terms and conditions of employment because of any lawful act of such employee described in Section 806 of the Sarbanes-Oxley Act.

(f) The Company is in compliance in all material respects with all effective provisions of the Sarbanes-Oxley Act.

(g) The Company has provided to Parent copies of all SAB 99 memoranda, reports, white papers or similar documents prepared by, on behalf of or for the benefit of the Company since January 1, 2010.

3.8 Proxy Statement. The proxy statement, letter to shareholders, notice of meeting and form of proxy accompanying the Proxy Statement that will be provided to shareholders of the Company in connection with the solicitation of proxies for use at the Company Shareholders' Meeting, and any schedules required to be filed with the SEC in

connection therewith (collectively, as amended or supplemented, the "Proxy Statement"), when filed with the SEC and on the date first mailed to shareholders of the Company and at the time of the Company Shareholders' Meeting, will comply as to form in all material respects with the applicable requirements of the Exchange Act and will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that notwithstanding the foregoing, no representation or warranty is made by the Company with respect to information supplied by Parent or Merger Sub or any of their officers, directors, representatives, agents or employees in writing specifically for inclusion or incorporation by reference in the in the Proxy Statement.

3.9 No Undisclosed Liabilities. Neither the Company nor any of its Subsidiaries has any Liabilities other than (a) Liabilities either (i) reflected or otherwise reserved against in the Balance Sheet or in the consolidated financial statements of the Company and its Subsidiaries included in the SEC Reports filed prior to the date of this Agreement, or (ii) to the extent disclosed in the notes to such financial statements, (b) Liabilities under this Agreement, (c) Liabilities incurred in connection with the transactions contemplated by this Agreement (including the Merger), (d) executory obligations under any Contract to which the Company or its Subsidiaries is a party, (e) Liabilities incurred since the date of the Balance Sheet in the ordinary course of business consistent with past practice and (f) other Liabilities that, individually or in the aggregate, are not and would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole.

3.10 Absence of Certain Changes.

(a) Since September 28, 2013, except for actions expressly contemplated by this Agreement, the business of the Company and its Subsidiaries has been conducted, in all material respects, in the ordinary course consistent with past practice, and there has not been or occurred or there does not exist, as the case may be:

(i) any Company Material Adverse Effect; or

(ii) any damage, destruction or other casualty loss (whether or not covered by insurance) with respect to any Real Property or Assets that, individually or in the aggregate, are material to the Company and its Subsidiaries, taken as a whole.

(b) Since September 28, 2013, except for actions expressly contemplated by this Agreement, the business of the Company and its Subsidiaries has been conducted, in all material respects, in the ordinary course consistent with past practice, and there has not been or occurred or there does not exist, as the case may be any action that, if taken after the date of this Agreement without the prior written consent of Parent, would constitute a breach of Section 5.2.

3.11 Material Contracts.

(a) For purposes of this Agreement, a "Material Contract" shall mean each of the following:

(i) any "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC, other than those agreements and arrangements described in Item 601(b)(10)(iii)) with respect to the Company and its Subsidiaries;

(ii) other than at-will offer letters on the Company's standard form containing no severance provisions or consulting Contracts which may be cancelled on less than ninety (90) days notice without penalty to the Company, any employment or independent contractor Contract (in each case, under which the Company has continuing obligations as of the date hereof) with any current or former executive officer, consultant, independent contractor, or employee of the Company or its Subsidiaries or member of the Company Board providing for an annual base compensation in excess of $100,000;

(iii) any Contract or plan, including any stock option plan, stock appreciation right plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the consummation of the transactions contemplated hereby (including the Merger) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement (including the Merger);

(iv) any Contract providing for indemnification or any guaranty (in each case, under which the Company has continuing obligations as of the date hereof), other than (A) any guaranty by the Company of any of its Subsidiary's obligations or (B) any Contract providing for indemnification entered into in connection with the distribution, sale or license of services or hardware or software products in the ordinary course of business, which indemnification does not materially differ from the provisions embedded in Company's standard forms of software license agreements as provided or made available to Parent;

(v) any Contract containing any covenant, commitment or other obligation (A) limiting the right of the Company or any of its Subsidiaries to engage in any line of business, to make use of any Company Intellectual Property Rights or to compete with any Person in any line of business, (B) granting any exclusive rights, (C) containing a "most favored nation" or similar provision, (D) including any "take or pay" or "requirements" obligation, (E) prohibiting the Company or any of its Subsidiaries (or, after the Effective Time, Parent) from engaging in business with any Person or levying a fine, charge or other payment for doing so or (F) otherwise prohibiting or limiting the right of the Company or its Subsidiaries to sell, distribute or manufacture any products or services or to purchase or otherwise obtain any software, components, parts or subassemblies in any material respect;

(vi) any Contract that is royalty-bearing;

(vii) any Contract (A) relating to the disposition or acquisition by the Company or any of its Subsidiaries after the date of this Agreement of a material amount of assets other than in the ordinary course of business or (B) pursuant to which the Company or any of its Subsidiaries will acquire any material ownership interest in any other Person or other business enterprise other than the Company's Subsidiaries;

(viii) the top ten (10) Contracts (as measured by aggregate dollar amount contemplated under each Contract) in each of the following categories: (i) end-user or customer contracts, (ii) value added reseller contracts, (iii) distributor contracts, (iv) supplier contracts, (v) OEM contracts, and (vi) development contracts;

(ix) any Contract to provide source code to any third party for any Company Product, including any Contract to put such source code in escrow with a third party on behalf of a licensee or contracting party;

(x) any Contract (A) containing any financial penalty for the failure by the Company or any of its Subsidiaries to comply with any support or maintenance obligation except for such Contracts on the Company's standard form of customer agreement or (B) containing any obligation to provide support or maintenance for the Company Products for any period in excess of twelve (12) months;

(xi) the top ten (10) Contracts containing any service obligation on the part of the Company or any of its Subsidiaries (as measured by continuing costs to be incurred by the Company or any of its Subsidiaries in connection with those services);

(xii) any Contract authorizing another Person to provide support or maintenance to the Company's customers on behalf of the Company, including distributors or resellers that are obligated to provide such support or maintenance pursuant to the Company's standard form of distributor or reseller agreement;

(xiii) (A) any Contract to license any third party to manufacture or reproduce any Company Products or (B) any Contract to authorize any third party to sell, license or distribute any Company Products;

(xiv) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other Contracts relating to the borrowing of money or extension of credit, in each case in excess of $100,000, other than (A) accounts receivables and payables and (B) loans to direct or indirect wholly-owned Subsidiaries, in each case in the ordinary course of business consistent with past practice;

(xv) any settlement Contract other than (A) releases immaterial in nature or amount entered into with former employees or independent contractors of the Company in the ordinary course of business or (B) settlement agreements for cash only (which has been paid) and does not exceed $100,000 as to such settlement;

(xvi) any other Contract that provides for payment obligations by the Company or any of its Subsidiaries of $100,000 or more in any individual case and is not disclosed pursuant to clauses (i) through (xv) above;

(xvii) any Contract with the federal government, any foreign government, any state or local government or any division, subdivision, department, agency or instrumentality thereof; and

(xviii) any Lease of any real property; and

(xix) any Contract, or group of Contracts with a Person (or group of affiliated Persons), the termination or breach of which would be reasonably expected to have a material adverse effect on any material product or service offerings of the Company or otherwise reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, and is not disclosed pursuant to clauses (i) through (xviii) above.

(b) Section 3.11(b) of the Company Disclosure Letter contains a complete and accurate list of all Material Contracts to or by which the Company or any of its Subsidiaries is a party or is bound as of the date hereof, and identifies each subsection of Section 3.11(a) that describes such Material Contract. The Company has delivered or made available to Parent complete and correct copies of each such Material Contract.

(c) Each Material Contract is valid and binding on the Company (and/or each such Subsidiary of the Company party thereto) and is in full force and effect, and neither the Company nor any of its Subsidiaries party thereto, nor, to the knowledge of the Company, any other party thereto, is in breach of, or default under, any such Material Contract, and no event has occurred that with notice or lapse of time or both would constitute such a breach or default thereunder by the Company or any of its Subsidiaries, or, to the knowledge of the Company, any other party thereto, except for such failures to be in full force and effect and such breaches and defaults that, individually or in the aggregate, would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of its Subsidiaries has received any written notice or other communication regarding any actual or possible violation or breach of or default under, or intention to cancel or modify, any Material Contract.

3.12 Compliance with Laws. The Company and each of its Subsidiaries, and, to the knowledge of the Company, their respective properties (including the Assets and the Real Property), are, and since January 1, 2010 have been, in compliance with all Laws and Orders applicable to the Company and its Subsidiaries or such properties or to the conduct of the business or operations of the Company and its Subsidiaries, except for such violations or noncompliance that, individually or in the aggregate, would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Since January 1, 2010, neither the Company nor any of its Subsidiary (a) has received any written notice from any Governmental Entity regarding any potential violation by the Company or any Company Subsidiary of any Law or (b) has provided any written notice to any Governmental Entity

regarding any potential violation by the Company or any of its Subsidiaries of any Law and no such notice remains outstanding or unresolved as of the date of this Agreement.

3.13 Permits. The Company and its Subsidiaries have, and are and since January 1, 2010 have been, in compliance with the terms of all permits, licenses, authorizations, consents, approvals and franchises from Governmental Entities required to occupy and operate each Real Property and to conduct their businesses as currently conducted ("Permits"), and no suspension or cancellation of any such Permits is pending or, to the knowledge of the Company, threatened, except for such noncompliance, suspensions or cancellations that, individually or in the aggregate, would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Since January 1, 2010, neither the Company nor any of its Subsidiaries has received any written notice from any Governmental Entity regarding (a) any violation by the Company or any of its Subsidiaries in any material respect of any Permits, or (b) any revocation, cancellation or termination of any Permits, in each case in any material respect, held by the Company or any of its Subsidiaries and no such notice in either case remains outstanding or unresolved as of the date of this Agreement.

3.14 Litigation. There is no Legal Proceeding pending or, to the knowledge of the Company, threatened (a) against the Company, any of its Subsidiaries or any of the respective properties of the Company or any of its Subsidiaries, including the Assets and the Real Property, or (to the knowledge of the Company) against third parties affecting such properties that (i) involves an amount in controversy in excess of $100,000, (ii) seeks material injunctive relief, or (iii) seeks to impose any legal restraint on or prohibition against or limit the Surviving Corporation's ability to operate the business of the Company and its Subsidiaries substantially as it was operated immediately prior to the date of this Agreement or (b) against any current or former director or officer of the Company or any of its Subsidiaries (in their respective capacities a such), whether or not naming the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries nor any of their respective properties, including the Assets and the Real Property, nor (to the knowledge of the Company) any third party owning or having any other interest in such properties is subject to any outstanding Order.

3.15 Antitrust Matters. As of the date hereof, the Company and its Subsidiaries are not subject to any Order issued by any Governmental Entity in relation to antitrust Laws, which is still in force.

3.16 Taxes.

(a) Each of the Company and its Subsidiaries has prepared and timely filed all material U.S. federal, state, local and non-U.S. Tax Returns required to be filed relating to any and all Taxes concerning or attributable to the Company, any of its Subsidiaries or their respective operations, and such Tax Returns in all material respects are true and correct and have been completed in accordance with applicable Laws.

(b) Each of the Company and its Subsidiaries has (i) timely paid all material Taxes it is required to pay, and (ii) timely paid or withheld (and timely paid over any withheld amounts to the appropriate Taxing authority) all federal and state income taxes,

Federal Insurance Contribution Act and Federal Unemployment Tax Act amounts, and other Taxes (including, but not limited to, all Taxes required to be reported and withheld on any U.S or non-U.S. stock options) required to be withheld.

(c) Neither the Company nor any of its Subsidiaries had any Liabilities for material unpaid Taxes as of the date of the Balance Sheet that had not been accrued or reserved on the Balance Sheet in accordance with GAAP, and neither the Company nor any of its Subsidiaries has incurred any Liability for Taxes since the date of the Balance Sheet other than in the ordinary course of business consistent with past practice.

(d) Neither the Company nor any of its Subsidiaries has executed any outstanding waiver of any statute of limitations on or extension of the period for the assessment or collection of any Tax.

(e) No audit or other examination of any Tax Return of the Company or any of its Subsidiaries is presently in progress, nor has the Company or any of its Subsidiaries been notified in writing of any request for such an audit or other examination. No material adjustment relating to any Tax Return filed by the Company has been proposed in writing by any Governmental Entity. No claim has ever been made by any Governmental Entity that the Company or any of its Subsidiaries is or may be subject to taxation in a jurisdiction in which it does not file Tax Returns.

(f) There are (and immediately following the Effective Time there will be) no Liens on the assets of the Company or any of its Subsidiaries relating or attributable to Taxes, other than Permitted Liens.

(g) Neither the Company nor any of its Subsidiaries has (i) ever been a member of an affiliated group (within the meaning of Code §1504(a)) filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company), (ii) ever been a party to any Tax sharing, indemnification or allocation agreement, nor does the Company or any of its Subsidiaries owe any amount under any such agreement, (iii) any Liability for the Taxes of any person other than the Company or any of its Subsidiaries under Treas. Reg. § 1.1502-6 (or any similar provision of state, local or foreign Law, including any arrangement for group or consortium relief or similar arrangement), as a transferee or successor, by contract, by operation of law or otherwise and (iv) ever been a party to any joint venture, partnership or other agreement that could be treated as a partnership for Tax purposes.

(h) Neither the Company nor any of its Subsidiaries will be required to include any income or gain or exclude any deduction or loss from Taxable income for any period or portion thereof after the Effective Time as a result of (i) any change in method of accounting made prior to the Effective Time, (ii) closing agreement under Section 7121 of the Code entered into prior to the Effective Time, (iii) deferred intercompany gain or excess loss account under Section 1502 of the Code attributable to transactions occurring prior to the Effective Time (or in the case of clauses (i), (i) and (iii) above, under any similar provision of applicable Law), (iv) installment sale or open transaction disposition made prior to the Effective Time or (v) prepaid amount received prior to the Effective Time.

(i) The Company has not constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code.

(j) The Company has not engaged in a reportable transaction under Treas. Reg. § 1.6011-4(b), including any transaction that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction, as set forth in Treas. Reg. § 1.6011-4(b)(2).

(k) The Company and each of its subsidiaries is in full compliance with all terms and conditions of any Tax exemption, Tax holiday or other Tax reduction agreement or order (each, a "Tax Incentive") and the consummation of the transactions contemplated by this Agreement will not have any adverse effect on the continued validity and effectiveness of any such Tax Incentive.

(l) Neither the Company nor any of its Subsidiaries is subject to Tax in any country other than its country of incorporation or formation by virtue of having a permanent establishment or other place of business or by virtue of having a source of income in that country.

(m) The transactions contemplated by this Agreement (including the Merger) will not result in the payment or series of payments by the Company or any of its Subsidiaries to any person of an "excess parachute payment" within the meaning of Section 280G of the Code, or any other similar payment, which is not deductible for federal, state, local or foreign Tax purposes. Additionally, there is no Contract to which the Company or any of its Subsidiaries is a party, including the provisions of this Agreement which, individually or collectively, (i) could give rise to the payment of any amount that would not be deductible pursuant to Section 162(m), Section 404 or Section 280G of the Code, (ii) is subject to Section 409A of the Code, or (iii) could require Parent or any affiliate of Parent to gross up a payment to any employee of the Company or any of its Subsidiaries for Tax related payments or cause a penalty tax under Section 409A of the Code.

(n) Each of the Company and its Subsidiaries is in compliance in all material respects with all applicable transfer pricing laws and regulations, including the execution and maintenance of contemporaneous documentation substantiating its transfer pricing practices and methodology, and such documents support a more likely than not standard as required under Financial Interpretation No. 48 of FASB Statement No. 109 ("FIN 48"). The prices for any property or services (or for the use of any property) provided by or to the Target or any of its Subsidiaries are arm's length prices for purposes of the relevant transfer pricing Laws, including Treasury Regulations promulgated under Section 482 of the Code.

(o) The Company and its Subsidiaries have identified all uncertain tax positions contained in all Tax Returns filed by the Company and/or its Subsidiaries and have

established adequate reserves and made any appropriate disclosures in the financial statements in accordance with the requirements of FIN 48.

(p) The Company has made available to Parent or its legal counsel or accountants copies of all Tax Returns and all FIN 48 work papers of the Company and each of its Subsidiaries for all periods since January 1, 2010.

3.17 Environmental Matters.

(a) Condition of Property. Except in compliance with Environmental Laws in a manner that would not reasonably be expected to subject the Company or any of its Subsidiaries to material Liability, no Hazardous Materials are present on any Business Facility currently owned, operated, occupied, controlled or leased by the Company or any Subsidiary or were present on any other Business Facility at the time it ceased to be owned, operated, occupied, controlled or leased by the Company or any Subsidiary. There are no underground storage tanks, asbestos which is friable or likely to become friable or PCBs present on any Business Facility currently owned, operated, occupied, controlled or leased by the Company or any of its Subsidiaries or as a consequence of the acts of the Company , and of its Subsidiaries or any of their respective agents.

(b) Hazardous Materials Activities. The Company and its Subsidiaries have conducted all Hazardous Material Activities relating to the business in compliance in all respects with all applicable Environmental Laws, except for those Hazardous Materials Activities that the failure to comply with applicable Environmental Laws would not reasonably be expected to result in material Liability to the Company and its Subsidiaries, taken as a whole. The Hazardous Materials Activities of the Company and its Subsidiaries prior to the Closing have not resulted in the exposure of any person to a Hazardous Material in a manner which has caused or would reasonably be expected to cause an adverse health effect to any such person and which would reasonably be expected to result in material Liability to the Company and its Subsidiaries, taken as a whole.

(c) Permits. Section 3.17(c) of the Company Disclosure Letter accurately describes all of the material Environmental Permits held by the Company and its Subsidiaries as of the date hereof relating to the business and the listed Environmental Permits are all of the Environmental Permits necessary for the continued conduct of any Hazardous Material Activity of the Company or any Subsidiary relating to the business as such activities are being conducted as of the date hereof. All such Environmental Permits are valid and in full force and effect. The Company and its Subsidiaries have complied in all material respects with all covenants and conditions of any Environmental Permit which is or has been in force with respect to their Hazardous Materials Activities. No circumstances exist relating to activities under the control of the Company and its Subsidiaries which would reasonably be expected to result in any Environmental Permit to be revoked, modified in a material way, or rendered non-renewable upon payment of the permit fee.

(d) Environmental Litigation. No Legal Proceeding is pending, or to the knowledge of the Company, threatened, concerning or relating to any Environmental Permit or any Hazardous Materials Activity of the Company or any Subsidiary relating to the business, or any Business Facility.

(e) Environmental Liabilities. The Company is not aware of any fact or circumstance, which could result in any environmental Liability that would reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of its Subsidiaries has entered into any material Contract that requires it to guarantee, reimburse, pledge, defend, hold harmless or indemnify any other party with respect to liabilities arising out of Environmental Laws or the Hazardous Materials Activities of the Company or any Subsidiary.

(f) Offsite Hazardous Material Disposal. The Company and its Subsidiaries have transferred or released Hazardous Materials only to those Disposal Sites set forth in Section 3.17(f) of the Company Disclosure Letter; and, to the knowledge of the Company, no Legal Proceeding exists or is threatened against any Disposal Site or and no Legal Proceeding exists or, to the knowledge of the Company, no Legal Proceeding is threatened against the Company or any of its Subsidiaries with respect to any transfer or release of Hazardous Materials relating to the business of the Company or any of its Subsidiaries to a Disposal Site which could reasonably be expected to result in material Liability to the Company and its Subsidiaries, taken as a whole.

(g) Reports and Records. The Company has delivered to Parent all material records in the Company's and its Subsidiaries' possession as of the date hereof concerning the Hazardous Materials Activities of the Company and its Subsidiaries since January 1, 2010, relating to the business and all environmental audits and environmental assessments of any Business Facility, including documentation relating to environmental reserves and asset retirement obligations. Section 3.17(g) of the Company Disclosure Letter lists all products of the Company or any Subsidiary which are subject to the EU RoHS Directive as of the date hereof and all such products listed comply with the EU RoHS Directive.

3.18 Employee Benefit Plans.

(a) Sections 3.18(a)(i) and Section 3.18(a)(ii) of the Company Disclosure Letter, respectively, set forth a complete and accurate list of (i) all "employee benefit plans" (as defined in Section 3(3) of ERISA), whether or not subject to ERISA and (ii) all other employment, consulting and independent contractor agreement, bonus, stock option, stock purchase or other equity-based, benefit, incentive compensation, profit sharing, savings, retirement (including early retirement and supplemental retirement), disability, insurance, vacation, incentive, deferred compensation, supplemental retirement (including termination indemnities and seniority payments), severance, termination, retention, change of control and other similar fringe, welfare or other employee benefit plans, programs, agreement, contracts, policies or arrangements (whether or not in writing) maintained or contributed to for the benefit of or relating to any current or former employee, consultant or independent contractor or director of the Company, any of its Subsidiaries or any other trade or business (whether or

not incorporated) which would be treated as a single employer with the Company or any of its Subsidiaries under Section 414 of the Code (an "ERISA Affiliate"), or with respect to which the Company or any of its Subsidiaries has any material Liability (together the "Employee Plans"). With respect to each Employee Plan, to the extent applicable, the Company has made available to Parent complete and accurate copies of (A) the most recent annual report on Form 5500 required to have been filed with the IRS for each Employee Plan, including all schedules thereto; (B) the most recent determination letter, if any, from the IRS for any Employee Plan that is intended to qualify under Section 401(a) of the Code; (C) the plan documents and summary plan descriptions, or a written description of the terms of any Employee Plan that is not in writing; (D) any related trust agreements, insurance contracts, insurance policies or other documents of any funding arrangements; (E) any notices to or from the IRS or any office or representative of the DOL or any similar Governmental Entity relating to any compliance issues in respect of any such Employee Plan; (F) with respect to each Employee Plan that is maintained in any non-U.S. jurisdiction (the "International Employee Plans"), to the extent applicable, (x) the most recent annual report or similar compliance documents required to be filed with any Governmental Entity with respect to such plan and (y) any document comparable to the determination letter referenced under clause (B) above issued by a Governmental Entity relating to the satisfaction of Laws necessary to obtain the most favorable tax treatment and (G) all other material Contracts relating to each Employee Plan, including administrative service agreements.

(b) Each Employee Plan has been maintained, operated and administered in compliance in all material respects with its terms and with all applicable Laws, including the applicable provisions of ERISA, the Code and any applicable regulatory guidance issued by any Governmental Entity. To the extent applicable, each International Employee Plan has been approved by the relevant taxation and other Governmental Entities so as to enable: (i) the Company or any of its Subsidiaries and the participants and beneficiaries under the relevant International Employee Plan and (ii) in the case of any International Employee Plan under which resources are set aside in advance of the benefits being paid (a "Funded International Employee Plan"), the assets held for the purposes of the Funded International Employee Plans, to enjoy the most favorable taxation status possible and the Company is not aware of any ground on which such approval may reasonably be expected to cease to apply.

(c) Each Employee Plan that is intended to be "qualified" under Section 401 of the Code has received a favorable determination or opinion letter from the IRS to such effect and nothing has occurred or exists since the date of such determination or opinion letter that would reasonably be expected to materially and adversely affect the qualified status of any such Employee Plan.

(d) All contributions, premiums and other payments required to be made with respect to any Employee Plan have been timely made, accrued or reserved for. Except as required by Law, neither the Company nor any of its Subsidiaries has any plan or commitment to amend or establish any new Employee Plan or to increase any benefits under any Employee Plan.

(e) There are no Legal Proceedings pending or, to the knowledge of the Company, threatened on behalf of or against any Employee Plan, the assets of any trust under any Employee Plan, or the plan sponsor, plan administrator or any fiduciary or any Employee Plan with respect to the administration or operation of such plans, other than routine claims for benefits that have been or are being handled through an administrative claims procedure.

(f) None of the Company, any of its Subsidiaries, or, to the knowledge of the Company, any of their respective directors, officers, employees or agents has, with respect to any Employee Plan, engaged in or been a party to any non-exempt "prohibited transaction," as such term is defined in Section 4975 of the Code or Section 406 of ERISA, which could reasonably be expected to result in the imposition of a penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code.

(g) Neither the Company, nor any of its Subsidiaries, nor any of their respective ERISA Affiliates has ever maintained, participated in or contributed to (or been obligated to contribute to) (i) an Employee Plan which was ever subject to Section 412 of the Code or Title IV of ERISA, (ii) a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA), (iii) a "multiple employer plan" as defined in ERISA or the Code, or (iv) a "funded welfare plan" within the meaning of Section 419 of the Code. No Employee Plan provides material welfare benefits that are not fully insured through an insurance contract.

(h) No Employee Plan provides post-termination or retiree life insurance, health or other welfare benefits to any person, other than pursuant to Section 4980B of the Code or any similar state, local or foreign Law.

(i) No Employee Plan that is subject to Section 409A of the Code has been materially modified (as defined under Section 409A of the Code) since October 3, 2004 and all such non-qualified deferred compensation plans or arrangements have been operated and administered in good faith compliance with Section 409A of the Code from the period beginning December 31, 2004 through December 31, 2008 and thereafter in compliance with the Final Treasury Regulations issued under Section 409A of the Code. Each Company Option, stock appreciation right, or other similar right to acquire Company Common Stock or other equity of the Company, granted to or held by an individual or entity who is or may be subject to United States taxation, (1) has an exercise price that is not less than the fair market value of the underlying equity as of the date such Company Option, stock appreciation right or other similar right was granted, and (2) has been properly accounted for in accordance with GAAP on the consolidated financial statements of the Company and its Subsidiaries filed in or furnished with the SEC Reports.

(j) Neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement (including the Merger) will, either alone or in conjunction with any other event, (i) result in any payment or benefit becoming due or payable, or required to be provided, to any director, employee or independent contractor of the Company or any of its Subsidiaries, (ii) increase the amount or value of any benefit or compensation otherwise payable or required to be provided to any such director, employee or independent contractor, (iii) result in the acceleration of the time of payment,

vesting or funding of any such benefit or compensation or (iv) result in the payment of any amount that would not be deductible by reason of Section 280G of the Code. There is no contract, agreement, plan or arrangement to which the Company or any of its Subsidiaries is a party or by which it is bound to compensate any current or former employee or other disqualified individual for excise taxes which may be required pursuant to Section 4999 of the Code.

(k) No deduction for federal income tax purposes has been nor is any such deduction expected by the Company to be disallowed for remuneration paid by the Company or any of its Subsidiaries by reason of Section 162(m) of the Code including by reason of the transactions contemplated hereby.

(l) All contracts of employment or for services with any employee of the Company or any of its Subsidiaries who provide services outside the United States ("Foreign Employees"), or with any director, independent contractor or consultant of or to the Company or any of its Subsidiaries, can be terminated by three (3) months' notice or less given at any time without giving rise to any claim for damages, severance pay, or compensation (other than a statutory redundancy payment required by applicable Laws).

(m) No International Employee Plan has Liabilities, that as of the Closing Date, will not be offset in full by insurance or otherwise be fully accrued.

(n) Each Employee Plan (not including any Employee Plan which is an individual employment Contract) can be amended, terminated or otherwise discontinued following the Effective for any reason without Liability to Parent or the Surviving Corporation or any of its Subsidiaries (other than ordinary administration expenses or routine claims for benefits).

3.19 Labor Matters.

(a) Neither the Company nor any of its Subsidiaries is a party to any Contract or arrangement between or applying to, one or more employees and a trade union, works council, group of employees or any other employee representative body, for collective bargaining or other negotiating or consultation purposes or reflecting the outcome of such collective bargaining or negotiation or consultation with respect to their respective employees with any labor organization, union, group, association, works council or other employee representative body, or is bound by any equivalent national or sectoral agreement ("Collective Bargaining Agreements"). There are no activities or proceedings pending or, to the knowledge of the Company, threatened or reasonably anticipated by any labor organization, union, group or association or representative thereof to organize any such employees. There are no lockouts, strikes, slowdowns, work stoppages or, to the knowledge of the Company, threats thereof by or with respect to any employees of the Company or any of its Subsidiaries nor have there been any such lockouts, strikes, slowdowns or work stoppages or threats thereof with respect to any employees or the Company or any of its Subsidiaries.

(b) The Company and its Subsidiaries have complied in all material respects with applicable Laws and Orders relating to employment, employment practices, terms and conditions of employment, worker classification, tax withholding, prohibited discrimination, equal employment, fair employment practices, meal and rest periods, immigration status, employee safety and health, wages (including overtime wages), compensation, and hours of work, and in each case, with respect to employees: (i) has withheld and reported all amounts required by Law or by agreement to be withheld and reported with respect to wages, salaries and other payments to employees, (ii) is not liable for any arrears of wages, severance pay or any taxes or any penalty for failure to comply with any of the foregoing, and (iii) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for employees (other than routine payments to be made in the normal course of business and consistent with past practice). Neither the Company nor any of its Subsidiaries has any material Liability with respect to any misclassification of: (x) any Person as an independent contractor rather than as an employee, (y) any employee leased from another employer, or (z) any employee currently or formerly classified as exempt from overtime wages.

(c) Neither the Company nor any Subsidiary has taken any action which would constitute a "plant closing" or "mass layoff" within the meaning of the WARN Act or similar state or local Law, issued any notification of a plant closing or mass layoff required by the WARN Act or similar state or local Law, or incurred any Liability or obligation under WARN or any similar state or local Law that remains unsatisfied. No terminations prior to the Closing would trigger any notice or other obligations under the WARN Act or similar state or local Law.

3.20 Real Property.

(a) Section 3.20(a) of the Company Disclosure Letter sets forth a true and complete list of all of the real property owned by the Company or any of its Subsidiaries as of the date hereof (the "Owned Real Property"). Except as set forth in Section 3.20(a) of the Company Disclosure Letter, the Company owns the Owned Real property free and clear of all Liens, except for Permitted Liens. The Company has delivered a true and correct copy of a title policy for the Owned Real Property to Parent.

(b) Section 3.20(b)(i) of the Company Disclosure Letter contains a complete and accurate list of all of the material leases, subleases, licenses, or other agreements in existence as of the date hereof under which the Company or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, any real property (collectively, the "Leases;" such property, the "Leased Real Property" and, collectively with the Owned Real Property, the "Real Property") including, with respect to each Lease, the name of the lessor, or the master lessor and sublessor, the date and term of the Lease and each amendment thereto, the square footage of the premises leased thereunder, and the aggregate annual rental payable thereunder. The Company has heretofore made available to Parent true, correct and complete copies of all Leases (including all modifications, amendments, supplements,

consents, waivers and side letters thereto and all agreements in connection therewith, including all work letters, improvement agreements, estoppel certificates, and subordination agreements). The Company and/or its Subsidiaries have and own valid leasehold estates in the Leases and the Leased Real Property, free and clear of all Liens except Permitted Liens. Section 3.20(b)(ii) of the Company Disclosure Letter contains a complete and accurate list of all of the leases, subleases, licenses, or other agreements in existence as of the date hereof granting to any Person, other than the Company or any of its Subsidiaries, any right to use or occupy, now or in the future, any of the Real Property (collectively, the "Third Party Leases") including, with respect to each such Third Party Lease, the name of the master lessor, sublessor and sublessee, the date of the Third Party Lease and each amendment thereto, the square footage of the premises leased thereunder, and the aggregate annual rental payable thereunder. The Leases and the Third Party Leases are each in full force and effect and neither the Company nor any of its Subsidiaries is in breach of or default under, or has received written notice of any breach of or default under, any Lease or Third Party Lease, and, to the knowledge of the Company, no event has occurred that with notice or lapse of time or both would constitute a breach or default thereunder by the Company or any of its Subsidiaries or any other party thereto. Neither the Company nor any of its Subsidiaries would be reasonably required to expend more than $25,000 in causing any Real Property to comply with the surrender conditions set forth in the applicable Lease. The Company and each of its Subsidiaries has performed all of its obligations under any termination agreements pursuant to which it has terminated any leases of real property that are no longer in effect and has no continuing liability with respect to such terminated real property leases.

(c) Neither the Company nor any of its Subsidiaries owes brokerage commissions or finder's fees with respect to any Real Property. The Company and its Subsidiaries as of the date hereof occupy all of the Real Property for the operation of their business except as set forth in Section 3.20(b)(ii) of the Company Disclosure Letter and, except pursuant to Third Party Leases, there are no other parties occupying or with a right to occupy the Real Property. The Company and its Subsidiaries do not use or occupy or have the right to use or occupy any real property other than the Real Property. The Company has not transferred or assigned any interest in any Lease, nor has the Company subleased or otherwise granted rights of use or occupancy of any of the premises described therein to any other person or entity, except as described in Section 3.20(b)(ii) of the Company Disclosure Letter.

(d) Each Real Property and all of its operating systems are in good operating condition and repair, and free from material structural, physical, mechanical, electrical, plumbing, roof or other defects, is maintained in a manner consistent with industry standards generally followed with respect to similar property, and is suitable for the conduct of the business of the Company and its Subsidiaries as presently conducted.

(e) The Company has not received any written notice from any insurance company of any defects or inadequacies in any Real Property or any part thereof which would reasonably be expected to materially and adversely affect the insurability of such Real Property or the premiums for the insurance thereof. No written notice has been given by any insurance

company which has issued a policy with respect to any portion of any Real Property or by any board of fire underwriters (or other body exercising similar functions) requesting the performance of any repairs, alterations or other work with which compliance has not been made.

(f) Neither the operations of the Company or any of its Subsidiaries on the Real Property nor, to the knowledge of the Company, any Real Property, including the improvements thereon, violate in any material respect any applicable building code, zoning requirement or other Law relating to such property.

(g) Except to the extent that such would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole: (i) there is no pending or, to the knowledge of the Company, threatened condemnation or similar proceeding affecting any Real Property or any portion thereof, and the Company has no knowledge that any such action is currently contemplated, (ii) there are no Legal Proceedings pending or, to the knowledge of the Company, threatened against the Company, or, to the knowledge of the Company, against third parties affecting any Real Property, and the Company is not aware of any facts which might result in any such Legal Proceeding, and (iii) there are no pending or, to the knowledge of the Company, threatened special assessments or improvements or activities of any public or quasi-public body either planned, in process, or completed which may give rise to any special assessment against any Real Property.

3.21 Assets; Personal Property. The machinery, equipment, furniture, fixtures and other tangible personal property and assets owned, leased or used by the Company or any of its Subsidiaries (the "Assets") are, in the aggregate, sufficient and adequate to carry on their respective businesses in all material respects as conducted as of the date hereof, and the Company and its Subsidiaries are in possession of and have good title to, or valid leasehold interests in or valid rights under contract to use, such Assets that are material to the Company and its Subsidiaries, taken as a whole, free and clear of all Liens, except for conditions, Permitted Liens, or defects in title that, individually or in the aggregate, are not and would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole.

3.22 Intellectual Property.

(a) Section 3.22(a) of the Company Disclosure Letter contains a complete and accurate list of all Company Products and all Domain Names under which Company operates its business as of the date hereof.

(b) Section 3.22(b) of the Company Disclosure Letter contains a complete and accurate list of the Company Intellectual Property Rights as of the date hereof that are Registered IP and material unregistered Trademarks ("Company Registered IP"), in each case listing, as applicable, (i) the name of the applicant/registrant, inventor/author and current owner, (ii) the jurisdiction where the application/registration is located, (iii) the application or registration number, (iv) the filing date, and issuance/registration/grant date, and (v) the prosecution status thereof.

(c) The Company Registered IP is subsisting and, to the knowledge of the Company, valid and enforceable. The Company has no knowledge of any information, materials, facts or circumstances, including any information or fact that would constitute prior art, that would render any of such Company Registered IP invalid or unenforceable, or would materially affect any pending application for any Company Registered IP. The Company has not misrepresented, or knowingly failed to disclose, any facts or circumstances in any application or proceedings for any Company Registered IP that would constitute fraud or a misrepresentation with respect to such application or that would otherwise affect the enforceability of any Company Registered IP.

(d) With respect to each item of Company Registered IP: (i) all necessary registration, maintenance and renewal fees have been paid, and all necessary documents and certificates have been filed with the relevant patent, copyright, trademark, domain registrars or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered IP; (ii) is in compliance with all formal legal requirements with respect thereto (including payment of filing, examination and maintenance fees and proofs of use), and (iii) is not subject to any unpaid maintenance fees or taxes. There are no actions that must be taken by Company or its Subsidiaries within ninety (90) days of the Termination Date, including, with respect to each item of Company Registered IP, the payment of any registration, maintenance or renewal fees or the filing of any documents, applications or certificates for the purposes of maintaining, perfecting or preserving or renewing any Company Registered IP.

(e) The Company or one of its Subsidiaries has valid and enforceable written agreements with respect to Company Intellectual Property Rights, pursuant to which: (i) the Company or one of its Subsidiaries has obtained complete, unencumbered, irrevocable, unrestricted and exclusive ownership of, or exclusive license rights to all such Company Intellectual Property Rights by valid assignment or otherwise (including the rights to recover unrecovered past, present and future damages for infringement or misappropriation of such Intellectual Property Rights) and (ii) the other parties thereto have not retained and do not have any rights or licenses with respect to the Company Intellectual Property Rights. This Agreement and the transactions contemplated hereunder do not conflict with or violate such third party agreements and no basis exists for such third party to challenge or object to this Agreement. In each case in which the Company or any of its Subsidiaries have acquired ownership of any Company Registered IP, the Company or one of its Subsidiaries has recorded each such acquisition with the U.S. Patent and Trademark Office, the U.S. Copyright Office, or their respective equivalents in the applicable jurisdiction, in each case in accordance with applicable Laws.

(f) Section 3.22(f) of the Company Disclosure Letter contain a complete and accurate list of all Contracts as of the date hereof (i) under which the Company or any of its Subsidiaries use or have acquired ownership or the right to use any Company IP, other than Shrink-Wrap Code or (ii) under which the Company or any of its Subsidiaries have licensed to others the right to use or agreed to transfer to others any Technology or Intellectual Property Rights that are or were Company IP and/or Company Products, other than non-

disclosure agreements the Company has entered into in the ordinary course of business (such Contacts, the "Company IP Agreements"). The Company has delivered or made available to Parent complete and correct copies of each such Company IP Agreement. Each Company IP Agreement is valid and binding on the Company (and/or each such Subsidiary of the Company party thereto) and is in full force and effect. Neither the Company nor any of its Subsidiaries party thereto, nor, to the knowledge of the Company, any other party thereto, is in breach of, or default under, any such Company IP Agreement, and no event has occurred that with notice or lapse of time or both would constitute such a breach or default thereunder by the Company or any of its Subsidiaries, or, to the knowledge of the Company, any other party thereto. To the knowledge of the Company, there are no pending disputes regarding the scope of such Company IP Agreements, performance under the Company IP Agreements, or with respect to payments made or received under such Company IP Agreements.

(g) The Company and its Subsidiaries own or have sufficient rights to all Intellectual Property Rights and Technology that are either used in, necessary for, or that would be infringed by, the conduct of the business of the Company and its Subsidiaries as currently conducted and as currently contemplated to be conducted. Without limiting the foregoing, the Company and its Subsidiaries have the right to use all software development tools, library functions, or compilers that the Company or its Subsidiaries (i) use to create, modify, compile, or support the Company Products that are Software or (ii) use to provide any Company Products that are services. Neither the operation of the business of the Company nor the use, provision, support, reproduction, making, distribution, marketing, sale, license or display of the Company Products by Company or its Subsidiaries, did, or do, or will: (A) infringe or misappropriate the Intellectual Property Rights of any Person; (B) violate the rights of any Person (including rights to privacy or publicity); or (C) constitute unfair competition or trade practices under the Laws of any jurisdiction (nor does Company have knowledge of any basis therefore).

(h) The Company and its Subsidiaries own all right, title and interest in, or have exclusive license rights to, the Company Intellectual Property Rights, free and clear of all Liens other than (i) obligations arising under the terms of any of the Company IP Agreements listed on Section 3.22(f) of the Company Disclosure Letter and (ii) Permitted Liens. All Company Intellectual Property Rights will be fully transferable, alienable or licensable by Parent without restriction and without payment of any kind to any third party. The Company and its Subsidiaries have, and following the Effective Time, the Parent will have the exclusive right to bring actions against any person that is infringing any Company Intellectual Property Rights and to retain for themselves any damages recovered in any such action. Neither the Company nor any of its Subsidiaries have transferred ownership of, let lapse or enter into the public domain or granted any exclusive license of or exclusive right to use, or authorized the retention of any exclusive rights to use or joint ownership of any Company Intellectual Property Rights to any other Person. No Person other than the Company and its Subsidiaries has ownership rights or exclusive license rights to any improvement or derivative works made by or for Company or one of its Subsidiaries in any Company IP or Company Intellectual Property Rights.

(i) The Company and each of its Subsidiaries have taken commercially reasonable steps to protect and preserve the confidentiality of the Trade Secrets that comprise any part of the Company IP, and to the knowledge of the Company, there is no unauthorized use, disclosure or misappropriation of any such Trade Secrets by any Person. To the knowledge of the Company, all use and disclosure of Trade Secrets owned by another Person by the Company or any of its Subsidiaries have been pursuant to the terms of a written agreement with such Person or such use and disclosure by the Company or any of its Subsidiaries was otherwise lawful. Without limiting the foregoing, the Company and its Subsidiaries have a policy requiring employees and certain consultants and contractors to execute a confidentiality and assignment agreement substantially in the Company's standard form previously provided to Parent which (i) assigns to the Company or one of its Subsidiaries all right, title and interest (including the sole right to enforce) in any Intellectual Property Rights arising therefrom and (ii) provides commercially reasonable protection for Trade Secrets of the Company and its Subsidiaries. All current or former employees, consultants and contractors of the Company or any Subsidiary that have created any Company IP have executed such agreements, and, to the knowledge of the Company, no party to any such agreement is in material breach thereof.

(j) To the knowledge of the Company, no Person (or any of such Person's products or services or other operation of such Person's business) is infringing upon or otherwise violating any Company Intellectual Property Rights, and neither the Company nor any of its Subsidiaries have asserted or threatened any claim against any Person alleging the same.

(k) There is and has not been in the prior six (6) years any Legal Proceeding made, conducted or brought by a third party that has been served upon, filed or threatened in writing, or, to the knowledge of the Company, otherwise threatened, with respect to (i) any alleged infringement or other violation by the Company or any of its Subsidiaries or any of its or their current products or services or other operation of the Company's or any of its Subsidiaries' business of the Intellectual Property Rights of such third party or (ii) any challenge to the validity or enforceability of, or contesting the Company's or any of its Subsidiaries' rights with respect to, any of the Company IP or Company Intellectual Property Rights. The Company and its Subsidiaries are not subject to any Order of any Governmental Entity that restricts or impairs the use, transfer or licensing of any Company IP or Company Intellectual Property Rights or other Intellectual Property Rights.

(l) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby (including the Merger) will not result in (i) the Company or its Subsidiaries granting to any third party any rights or licenses to any Intellectual Property Rights, (ii) any right of termination or cancellation under any Company IP Agreement, (iii) any payment of fees, penalties, royalties or expenses under any Company IP Agreement that would not have been payable absent this Agreement and the consummation of the transactions contemplated hereby, (iv) change in the scope or nature of any Intellectual Property Rights granted to, or by, the Company or its Subsidiaries, (v) the imposition of any Lien on any Owned Company IP, or (vi) after the Merger, (A) Parent or any of its Subsidiaries or Affiliates being required to grant any third party any rights or licenses to any of Parent's

or any of its Subsidiaries' or Affiliates' Intellectual Property Rights, (B) Parent or any of its Subsidiaries or Affiliates being bound by, or subject to, any non-competition, non-solicitation, exclusivity or other material restriction on the operation or scope of their respective business, or (C) Parent or any of its Subsidiaries or Affiliates being obligated to pay any incremental royalties or other material amounts, offer any incremental discounts or being bound by any "most favored pricing" terms to any third party except to the extent, in each case with respect to clause (A), (B) or (C), caused by a contract to which Parent or any of its Subsidiaries or Affiliates is a party.

(m) Except as set forth in Section 3.22(m) of the Company Disclosure Letter, no Software that constitutes Public Software was or is used in, incorporated into, integrated or bundled with any Company Product, Company IP, or incorporated in or used in the development or compilation of any Company Products or otherwise distributed by the Company or its Subsidiaries. Section 3.22(m) of the Company Disclosure Letter sets forth a list of all Public Software that is included in, or provided or distributed with, any Company Product as of the date hereof and for each use of Public Software: (i) the name of the Public Software; (ii) a description of the functionality of the Public Software, (iii) the applicable license terms and website (or other source) from which it was obtained, (iv) the applicable Company Product, (v) whether or not the Public Software has been modified, (vi) to the knowledge of Company, the copyright holder(s) of such Public Software, and (vii) a description of any modifications to such Public Software made by the Company or its Subsidiaries.

(n) The Company and its Subsidiaries are in full compliance with all Public Software license agreements to which the Company or a Subsidiary, as applicable, is a party, and the Company's and its Subsidiaries' use or incorporation of Public Software has not and does not (i) grant to any third party any rights in the Company's or a Subsidiary's products, services or intellectual property, (ii) require the licensing, disclosure, or distribution of any Software developed by or for the Company or a Subsidiary, (iii) require the Company or a Subsidiary to license the use of its products or services to third parties without charge, or (iv) create restrictions on or immunities to the Company's or its Subsidiaries' enforcement of its intellectual property rights.

(o) Neither the Company nor any of its Subsidiaries have granted any Intellectual Property Rights or any licenses to use any Source Code, including Confidential Technology escrow agreements. None of the Confidential Technology for the Company Products has been published or disclosed by the Company or any of its Subsidiaries, except to its employees or advisers or pursuant to non-disclosure agreements, or, to the knowledge of the Company, by any other person except as authorized by the Company under a non-disclosure agreement. No condition has occurred that would be sufficient to entitle the beneficiary under any technology escrow arrangement under which the Company or any of its Subsidiaries have deposited any material Confidential Technology for any Company Product to require release of such Confidential Technology. The consummation of the transactions contemplated hereby (including the Merger) will not constitute a condition sufficient to entitle the beneficiary under any Confidential Technology escrow arrangement

under which the Company or any of its Subsidiaries have deposited any material Confidential Technology for any Company Product to require release of such Confidential Technology.

(p) All data which has been collected, stored, maintained or otherwise used by the Company and its Subsidiaries has been collected, stored, maintained and used in accordance with all applicable U.S. and foreign Laws, guidelines, contracts, and industry standards. Neither the Company nor its Subsidiaries has received a notice of noncompliance with applicable data protection Laws, guidelines or industry standards. The Company and its Subsidiaries have made all registrations that the Company and its Subsidiaries are required to have made in relation to the processing of data, and are in good standing with respect to such registrations, with all fees due within ninety (90) days of the date hereof duly made. The Company's and its Subsidiaries' practices are, and have always been, in compliance with (i) their then-current privacy policy, including the privacy policy posted on the Company's and its Subsidiaries' websites, and (ii) their customers' privacy policies, when required to do so by contract. The Company and its Subsidiaries have implemented and maintained commercially reasonable measures to protect and maintain the confidential nature of any personal information. The Company and its Subsidiaries have adequate technological and procedural measures in place to protect personal information collected by Company or a Subsidiary of the Company against loss, theft and unauthorized access or disclosure. The Company and its Subsidiaries have the full power and authority to transfer any and all rights in any personal information in the Company's and its Subsidiaries' possession or control to Parent, there are no provisions in any applicable privacy policy that would prevent or restrict such transfer and, to the knowledge of the Company, there are no applicable Laws that would prevent or restrict such transfer. Neither the Company nor any of its Subsidiaries is subject to any obligation that would prevent Parent from using the personal information in a manner consistent with any law or industry standard regarding the collection, retention, use, or disclosure of such information.

(q) To the knowledge of the Company, there are no design, manufacturing, or other defects or errors in the Company Products or Company IP, that have not been fully resolved, including without limitation (i) defects or errors that permit unauthorized access to computers or systems of users through those Company Products or Company IP, (ii) any disabling codes or instructions and any "back door," "time bomb," "Trojan horse," "worm," "drop dead device," "virus" or other software routines or hardware components that permit unauthorized access or the unauthorized disruption, impairment, disablement or erasure of such Company Product or Company IP (or all parts thereof) or data or other software of users, (iii) any defects or errors which have led or would reasonably be expected to lead to any broad or limited recall of the Company Products, (iv) any defects or errors which affect the safety, functionality or use of the Company Products for their intended purposes or (v) any defects or errors which would breach any Contract entered into by the Company or its Subsidiaries with respect to the Company Products.

(r) The Company and its Subsidiaries have taken reasonable steps and implemented reasonable procedures to prevent viruses and other disabling codes from entering Company Products and Company IP and otherwise safeguard the information technology

systems of the Company and its Subsidiaries. To the knowledge of the Company, there have been no successful unauthorized intrusions or breaches of the security of information technology systems of the Company and its Subsidiaries. The Company and its Subsidiaries have sufficient and industry-standard disaster recovery plans procedures and facilities for the business.

(s) To the knowledge of the Company, neither the Company nor any of its Subsidiaries have extended or granted any refund rights with respect to any Company Products other than in the ordinary course of business consistent with past practices. None of the Company's or its Subsidiaries' customers, the distributors of the Company Products, or end users have claimed to Company or its Subsidiaries (or to their distributors), that the Company Products are defective or otherwise not in compliance with the applicable Warranties other than any such claim that does not exceed $100,000 individually and any such claims that do not exceed $500,000 in the aggregate. The Company has no knowledge of any fact, or of the occurrence of any event, that might reasonably form the basis of any present or future claim against the Company or its Subsidiaries, whether or not fully covered by insurance, for Liability on account of negligence or product liability or on account of any Warranties other than any such claim that would not exceed $100,000 individually and any such claims that would not exceed $500,000 in the aggregate. "Warranties" shall mean all obligations to service, repair (including, without limitation, to provide fixes to program errors), replace, credit, refund and other obligations based upon or arising out of express and implied warranties made or deemed made in connection with the provision, license or sale of Company Products.

(t) Section 3.22(t)(i) of the Company Disclosure Letter sets forth a true and complete list of all industry standards bodies or similar organizations related to the business in which the Company and/or any of its Subsidiaries has participated and Section 3.22(t)(ii) of the Company Disclosure Letter sets forth a true and complete list of all industry standards bodies or similar organizations related to the business in which the Company and/or any of its Subsidiaries is or was a member. None of the Company IP or Company Intellectual Property Rights is subject to any claim, right to use, license or obligation to license as a result of the participation or membership in, or utilization of the work of, any standards body, consortium or organization, nor is there any claim, license, right to use or obligation to license any of the Company IP or Company Intellectual Property Rights to any third party as a result of the participation or membership in, or utilization of the work of, any standards body, consortium or organization.

(u) No rights have been granted to any Governmental Entity with respect to any Company Product, Company Technology or under any Intellectual Property, other than the same standard commercial rights as are granted by the Company to commercial end users of the Company Products in the ordinary course of business consistent with past practices.

3.23 Export Control and Import Laws.

(a) The Company and each of its Subsidiaries have complied in all material respects with all applicable export and reexport control and trade and economic sanctions Laws ("Export Controls"), including the Export Administration Regulations ("EAR")

maintained by the U.S. Department of Commerce, trade and economic sanctions maintained by the Treasury Department's Office of Foreign Assets Control ("OFAC"), and the International Traffic in Arms Regulations ("ITAR") maintained by the Department of State and any applicable anti-boycott compliance regulations except for such noncompliance that would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of its Subsidiaries has directly or indirectly sold, exported, reexported, transferred, diverted, or otherwise disposed of any products, software, technology, or technical data to any destination, entity, or person prohibited by the Laws of the United States, without obtaining prior authorization from the competent government authorities as required by Export Controls. The Company and its Subsidiaries are in compliance with all applicable import Laws ("Import Restrictions"), including Title 19 of the U.S. Code and Title 19 of the Code of Federal Regulations

(b) Section 3.23 of the Company Disclosure Letter accurately describes all of (1) the goods, services, items, software, technology, and technical data of the Company and its subsidiaries along with the appropriate classification, including their Export Control Classification Numbers ("ECCNs") or designation on the U.S. Munitions List ("USML"); (2) the countries to which these goods, services, items, software, technology, or technical data have been exported; and (3) the licenses and license exceptions currently held or claimed by the Company and its Subsidiaries for the export of goods, services, items, software, technology, or technical data. The listed licenses and license exceptions are all of the licenses and exceptions necessary for the continued export or reexport of goods, services, items, software, technology, or technical data of the Company or any Subsidiary. All such licenses are valid and in full force and effect. The Company and its Subsidiaries have complied with all terms and conditions of any license issued or approved by the Directorate of Defense Trade Controls, the Bureau of Industry and Security, or the Office of Foreign Assets Control which is or has been in force or other authorization issued pursuant to Export Controls.

(c) Except as authorized under applicable Laws or pursuant to valid licenses, the Company and its Subsidiaries have not released, disclosed, or allowed access to technical data or technology to any foreign national whether in the United State or abroad.

(d) No Legal Proceeding, claim, request for information, or subpoena is pending, or to the knowledge of the Company, threatened, concerning or relating to any export, reexport, or import activity of the Company or any of its Subsidiaries. No voluntary self disclosures have been filed by or for the Company or any of its Subsidiaries with respect to possible violations of Export Controls and Import Restrictions.

(e) Neither the Company nor any of its Subsidiaries is aware of any fact or circumstance that would result in any Liability for any violation of Export Control and Import Restrictions.

(f) The Company and its Subsidiaries, including, to the knowledge of the Company, all of their customs brokers and freight forwarders, have maintained all records required to be maintained regarding the business of the Company and its Subsidiaries as required under the Export Control and Import Restrictions.

3.24 Insurance. All material policies of insurance covering the Company, its Subsidiaries or any of their respective employees, properties or assets, including policies of life, property, title, fire, workers' compensation, products liability, directors' and officers' liability and other casualty and liability insurance, are listed in Section 3.24 of the Company Disclosure Schedule. All such insurance policies are in full force and effect, no written notice of cancellation has been received, and there is no existing default or event which, with the giving of written notice or lapse of time or both, would constitute a default, by any insured thereunder, except for such defaults that would not be, individually or in the aggregate, material to the Company and its Subsidiaries, taken as a whole. There is no material claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policies and there has been no threatened termination of, or material premium increase with respect to, any such policies.

3.25 Foreign Corrupt Practices Act. Neither the Company nor any of its Subsidiaries (including any of their respective officers, directors, agents, employees or other Person associated with or acting on their behalf) have, directly or indirectly, taken any action which would cause it to be in violation of the Foreign Corrupt Practices Act of 1977, as amended, or any rules or regulations thereunder, used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, made, offered or authorized any unlawful payment to foreign or domestic government officials or employees, whether directly or indirectly, or made, offered or authorized any bribe, rebate, payoff, influence payment, kickback or other similar unlawful payment, whether directly or indirectly.

3.26 Related Party Transactions. Except as set forth in the SEC Reports or compensation or other employment arrangements in the ordinary course, there are no transactions, agreements, arrangements or understandings between the Company or any of its Subsidiaries, on the one hand, and any Affiliate (including any officer or director) thereof, but not including any wholly owned Subsidiary of the Company, on the other hand.

3.27 Brokers; Fees and Expenses. Except for Oppenheimer & Co., Inc. (true and correct copies of whose engagement letter has been furnished to Parent), there is no investment banker, broker, finder, agent or other Person that has been retained by or is authorized to act on behalf of the Company or any of its Subsidiaries who is entitled to any financial advisor's, brokerage, finder's or other fee or commission in connection with the transactions contemplated hereby (including the Merger). Any engagement with any investment banker, broker, finder, agent or other Person other than Oppenheimer & Co., Inc. has expired and is no longer in effect.

3.28 Opinion of Financial Advisors. The Company has received the oral opinion of Oppenheimer & Co., Inc. (to be confirmed in writing) to the effect that, as of the date of the approval of this Agreement by the Company Board, the Merger Consideration is fair to the holders of Company Common Stock from a financial point of view, and, as of the date of this Agreement, such opinion has not been withdrawn, revoked or modified.

3.29 State Anti-Takeover Statutes. No "moratorium," "control share acquisition," "business combination," "fair price" or other form of anti-takeover Law or regulation (collectively, "Takeover Laws") of any jurisdiction is applicable to the Company, any of its Subsidiaries, the Shares, this Agreement, the Voting Agreements or any of the transactions contemplated hereby (including the Merger) or thereby.

3.30 Customers and Suppliers.

(a) Neither the Company nor any of its Subsidiaries has any outstanding disputes concerning any Company Products with any customer, who in either (i) the three fiscal years ended March 30, 2013 was, and/or (ii) the fiscal year ending March 31, 2014 is projected to be, one of the twenty (20) largest customers of Company Products based on amounts paid or payable to the Company or its Subsidiaries by such customers (each, a "Significant Customer") other than any such dispute that did not, and/or is not projected to, exceed $100,000 individually and any such disputes that did not, and/or are not projected to, exceed $500,000 in the aggregate. Neither the Company nor any of its Subsidiaries has received any written or, to the knowledge of the Company, oral notice from any Significant Customer that such Significant Customer shall not continue as a customer of the Company (or the Surviving Corporation or Parent) or any of its Subsidiaries after the consummation of the transactions contemplated hereby or that such Significant Customer intends to terminate or materially modify any existing Contracts with the Company (or the Surviving Corporation or Parent) or any of its Subsidiaries.

(b) Neither the Company nor any of its Subsidiaries has any outstanding dispute concerning products and/or services provided by any supplier, who in either (i) the fiscal year ended March 30, 2013 was, and/or (ii) in the fiscal year ending March 31, 2014 is projected to be, one of the ten (10) largest suppliers of products and/or services to the Company and its Subsidiaries based on amounts paid or payable by the Company and its Subsidiaries to such supplier (each, a "Significant Supplier") other than any such dispute that did not, and/or is not projected to, exceed $50,000 individually and any such disputes that did not, and/or are not projected to, exceed $150,000 in the aggregate. Neither the Company nor any of its Subsidiaries has received any written or, to the knowledge of the Company, oral notice from any Significant Supplier that such Significant Supplier shall not continue as a supplier to the Company (or the Surviving Corporation or Parent) or any of its Subsidiaries after the Closing or that such Significant Supplier intends to terminate or materially modify existing Contracts with the Company (or the Surviving Corporation or Parent) of any of its Subsidiaries.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub hereby represent and warrant to the Company as follows:

4.1 Organization. Each of Parent and Merger Sub is duly organized, validly existing and in good standing under the laws of the state of their respective incorporation and

has the requisite corporate power and authority to conduct its business as it is presently being conducted and to own, lease or operate its respective properties and assets.

4.2 Authorization. Each of Parent and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby and to perform its obligations hereunder. The execution and delivery of this Agreement by Parent and Merger Sub and the consummation by Parent and Merger Sub of the transactions contemplated hereby (including the Merger) have been duly authorized by all necessary corporate action on the part of Parent and Merger Sub, and no other corporate proceedings on the part of Parent or Merger Sub are necessary to authorize this Agreement or the consummation of the transactions contemplated hereby (including the Merger). This Agreement has been duly executed and delivered by each of Parent and Merger Sub and, assuming the due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of each of Parent and Merger Sub, enforceable against each in accordance with its terms, except that such enforceability (a) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting or relating to creditors' rights generally and (b) is subject to general principles of equity.

4.3 Non-contravention; Required Consents.

(a) The execution, delivery or performance by Parent and Merger Sub of this Agreement, the consummation by Parent and Merger Sub of the transactions contemplated hereby (including the Merger) and the compliance by Parent and Merger Sub with any of the provisions hereof do not and will not (i) violate or conflict with any provision of the certificates of incorporation or bylaws or other constituent documents of Parent or Merger Sub or, (ii) assuming compliance with the matters referred to in Section 4.3(b), violate or conflict with any Law or Order applicable to Parent or Merger Sub or by which any of their properties or assets are bound except in the case of clause (ii) above, for such violations or conflicts which, individually or in the aggregate, could not have a Parent Material Adverse Effect.

(b) No Consent of any Governmental Entity is required on the part of Parent, Merger Sub or any of their Affiliates in connection with the execution, delivery and performance by Parent and Merger Sub of this Agreement and the consummation by Parent and Merger Sub of the transactions contemplated hereby (including the Merger), except (i) the filing and recordation of the Agreement of Merger with the California Secretary of State, (ii) such filings and approvals as may be required by any federal or state securities Laws, including compliance with any applicable requirements of the Exchange Act, (iii) compliance with any applicable requirements of the HSR Act and any applicable foreign antitrust, competition or merger control Laws and (iv) such other Consents, the failure of which to obtain, individually or in the aggregate, could not have a Parent Material Adverse Effect.

4.4 Proxy Statement. None of the information supplied by Parent, Merger Sub or their officers, directors, representatives, agents or employees for inclusion in Proxy Statement, when filed with the SEC and on the date the Proxy Statement is first sent to shareholders of the Company or at the time of the Company Shareholders' Meeting, will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or

necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

4.5 Funds. Parent has, or will have at the Effective Time, the funds necessary to consummate the Merger.

ARTICLE V
INTERIM CONDUCT OF BUSINESS

5.1 Affirmative Obligations of the Company. Except (a) as contemplated or permitted by this Agreement, (b) as set forth in Section 5.1 of the Company Disclosure Letter or (c) as approved in advance by Parent in writing (which approval shall not be unreasonably withheld, conditioned, or delayed), at all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, each of the Company and each of its Subsidiaries shall (i) carry on its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and in compliance with all applicable Laws, (ii) pay its debts and Taxes when due, in each case subject to good faith disputes over such debts or Taxes for which adequate reserves have been established in accordance with GAAP on the appropriate financial statements, (iii) pay or perform all material obligations when due and (iv) use commercially reasonable efforts, consistent with past practices and policies, to (A) preserve intact its present business organization, (B) keep available the services of its present officers and employees and (C) preserve its relationships with customers, suppliers, distributors, licensors, licensees and others with which it has significant business dealings.

5.2 Negative Obligations of the Company. Except (i) as contemplated or permitted by this Agreement, (ii) as set forth in Section 5.2 of the Company Disclosure Letter or (iii) as approved in advance by Parent in writing, which approval shall not be unreasonably withheld, conditioned or delayed, at all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, the Company shall not do any of the following and shall not permit its Subsidiaries to do any of the following:

(a) propose to adopt any amendments to or amend its articles of incorporation or bylaws or comparable organizational documents;

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any Company Securities or any Subsidiary Securities, except for the issuance and sale of Shares pursuant to Company Options or other equity awards outstanding prior to the date hereto; *provided, however,* that if the Merger has not been consummated on or prior to the date that is sixty (60) days from the date hereof, the Company may make option grants consistent with past practices to new hires;

(c) acquire or redeem, directly or indirectly, or amend any Company Securities or Subsidiary Securities;

(d) other than cash dividends made by any direct or indirect wholly-owned Subsidiary of the Company to the Company or one of its Subsidiaries, split, combine or reclassify any shares of capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, shares or property or any combination thereof) in respect of any shares of capital stock, or make any other actual, constructive or deemed distribution in respect of the shares of capital stock;

(e) propose or adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries (other than the transactions contemplated hereby, including the Merger);

(f) (i) incur or assume any long-term or short-term debt or issue any debt securities, except for (A) short-term debt incurred to fund operations of the business in the ordinary course of business consistent with past practice and (B) loans or advances to direct or indirect wholly-owned Subsidiaries, (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person except with respect to obligations of direct or indirect wholly-owned Subsidiaries of the Company, (iii) make any loans, advances or capital contributions to or investments in any other Person except for travel advances in the ordinary course of business consistent with past practice to employees of the Company or any of its Subsidiaries or (iv) mortgage or pledge any of its or its Subsidiaries' assets, tangible or intangible, or create or suffer to exist any Lien thereupon (other than Permitted Liens);

(g) except as may be required by applicable Laws, enter into, adopt, amend (including acceleration of vesting), modify or terminate any bonus, profit sharing, compensation, severance, termination, option, restricted stock, restricted stock unit, appreciation right, performance unit, stock equivalent, share purchase agreement, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the compensation, benefit or welfare of any director, officer or employee in any manner or increase in any manner the compensation or fringe benefits of any director, officer or employee, pay any special bonus or special remuneration to any director, officer or employee, or pay any benefit not required by any plan or arrangement as in effect as of the date hereof except that the Company may make awards under the Profit Sharing Bonus Incentive Plan consistent with past practices and may terminate and make distributions under its Non-Qualified Deferred Compensation Plan ("NQDCP");

(h) forgive any loans to any employees, officers or directors of the Company or any of its Subsidiaries, or any of their respective Affiliates or Associates;

(i) make any deposits or contributions of cash or other property to or take any other action to fund or in any other way secure the payment of compensation or benefits under the Employee Plans or agreements subject to the Employee Plans or any other Contract

of the Company other than deposits and contributions that are required pursuant to the terms of the Employee Plans or any agreements subject to the Employee Plans in effect as of the date hereof;

(j) enter into, amend, or extend any Collective Bargaining Agreement;

(k) acquire, sell, lease, license or dispose of any property or assets in any single transaction or series of related transactions, except either (i) transactions pursuant to existing Contracts which are not material to the Company, individually or in the aggregate, or (ii) in connection with the manufacture or sale of goods or grants of non-exclusive licenses with respect to Company IP in the ordinary course of business consistent with past practice or (iii) transactions involving movement of investments between cash and short-term securities;

(l) except as may be required as a result of a change in applicable Laws or in GAAP, make any change in any of the accounting principles or practices used by it;

(m) (i) make or change any material Tax election, (ii) file any material Tax Return or any amended Tax Return, (iii) settle or compromise any material Liability for Taxes, (iv) adopt or change any Tax accounting method or (v) consent to any extension or waiver of any limitation period with respect to any material claim or assessment for Taxes;

(n) enter into or amend a Company IP Agreement (except for the grants of non-exclusive licenses with respect to Company IP in the ordinary course of business consistent with past practice) or grant any release or relinquishment of any rights under any Company IP Agreement;

(o) (i) enter into any lease or sublease of real property (whether as a lessor, sublessor, lessee or sublessee) or (ii) modify, amend or exercise any right to renew any lease or sublease of real property or waive or violate any term or condition thereof or grant any consents thereunder; grant or otherwise create or consent to the creation of any easement, covenant, restriction, assessment, Lien or charge affecting any real property or any part thereof; convey any interest in any Real Property; commit any waste or nuisance on any such property; or make any material changes in the construction or condition of any such property;

(p) (i) sell, lease, license (except as provided in Section 5.2(k)) or transfer to any person or entity any rights to any Company IP, (ii) purchase or license (except as provided in Section 5.2(k)) any Intellectual Property Rights or enter into any agreement or modify any existing agreement with respect to the Intellectual Property Rights of any person or entity (except as provided in Section 5.2(k)), (iii) enter into any agreement or modify any existing agreement with respect to the development of any Intellectual Property or Intellectual Property Rights with a third party, or (iv) change pricing or royalties set or charged by the Company to its customers or licensees, or the pricing or royalties set or charged by persons who have licensed Intellectual Property or Intellectual Property Rights to the Company; (v) enter into or amend any agreement pursuant to which any other party is granted marketing, distribution, or similar rights of any type or scope with respect to any products or technology

of the Company; or (vi) enter into or amend any agreement pursuant to which any other party is granted development, manufacturing or similar rights of any type or scope with respect to any products or technology of the Company;

(q) (i) acquire (by merger, consolidation or acquisition of stock or assets) any other Person or any equity interest therein, (ii) enter into any Material Contract (other than in the ordinary course of business consistent with past practice) or amend any Material Contract or grant any release or relinquishment of any rights under any Material Contract or (iii) authorize, incur or commit to incur any new capital expenditure(s), individually or in the aggregate, with obligations to the Company or any of its Subsidiaries in excess of $250,000; *provided* that Parent approval of capital expenditures in excess of $250,000 which are necessary to fulfill existing Contracts shall not be unreasonably withheld;

(r) settle or compromise any pending or threatened Legal Proceeding or pay, discharge or satisfy or agree to pay, discharge or satisfy any claim, Liability or obligation (absolute or accrued, asserted or unasserted, contingent or otherwise), other than the settlement, compromise, payment, discharge or satisfaction of Legal Proceedings, claims and other Liabilities (i) reflected or reserved against in full in the Balance Sheet or incurred since the date of the Balance Sheet in the ordinary course of business consistent with past practice or (ii) the settlement, compromise, discharge or satisfaction of which does not include any obligation (other than the payment of money) to be performed by the Company or its Subsidiaries following the Effective Time that, individually or in the aggregate, is not and could not be material to the Company and its Subsidiaries, taken as a whole;

(s) except as required by applicable Laws or GAAP, revalue in any material respect any of its properties or assets including without limitation writing-off notes or accounts receivable other than in the ordinary course of business consistent with past practice;

(t) except as required by applicable Laws, convene any regular or special meeting (or any adjournment or postponement thereof) of the shareholders of the Company other than the Company Shareholders' Meeting;

(u) hire any employee without requiring them to execute the Company's standard form of confidentiality and inventions assignment agreement; or

(v) enter into a Contract to do any of the foregoing.

ARTICLE VI
ADDITIONAL AGREEMENTS

6.1 No Solicitation.

(a) The Company and its Subsidiaries shall, and shall cause each of the Company Representatives to, immediately cease any and all existing activities, discussions or negotiations with any Persons conducted heretofore with respect to any Acquisition

Proposal. The Company shall promptly (and in any event within three (3) Business Days following the date hereof) request in writing each Person which has heretofore executed a confidentiality agreement in connection with its consideration of acquiring the Company or any portion thereof to return or destroy all confidential information heretofore furnished to such Person by or on behalf of the Company, and the Company shall use its reasonable best efforts to have such information returned or destroyed (to the extent destruction of such information is permitted by such confidentiality agreement) and to enforce the provisions of any "standstill" or other similar agreement between the Company or any of its Subsidiaries and any Person (other than Parent). Such written requests shall contain a notice to each Person that any information that is sent to the Company in the future will not be treated as confidential pursuant to such confidentiality agreement.

(b) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, the Company and its Subsidiaries shall not, and shall use their reasonable best efforts to cause any of their respective directors, officers or other employees, controlled affiliates, or any investment banker, attorney or other advisors or representatives retained by any of them (collectively, the "Company Representatives") not to (and shall not authorize or permit any of them to), directly or indirectly, (i) solicit, initiate, knowingly encourage or facilitate the making, submission or announcement of, an Acquisition Proposal, (ii) furnish to any Person (other than Parent, Merger Sub or any designees of Parent or Merger Sub) any non-public information relating to the Company or any of its Subsidiaries that the Company believes or should reasonably expect could be used for the purposes of making, submitting or announcing an Acquisition Proposal, or afford access to the business, properties, assets, books or records of the Company or any of its Subsidiaries to any Person (other than Parent, Merger Sub or any designees of Parent or Merger Sub) that the Company believes or should reasonably expect could be used for the purposes of making, submitting or announcing an Acquisition Proposal, or take any other action intended to assist or facilitate any inquiries or the making of any proposal that constitutes or would be reasonably expected to lead to an Acquisition Proposal, (iii) participate or engage in discussions or negotiations with any Person with respect to an Acquisition Proposal, (iv) approve, endorse or recommend an Acquisition Proposal, (v) execute or enter into any letter of intent, memorandum of understanding or Contract contemplating or otherwise relating to an Acquisition Transaction or (vi) terminate, amend, modify, waive or fail to enforce any rights under any "standstill" or other similar agreement between the Company or any of its Subsidiaries and any Person (other than Parent); *provided, however*, that notwithstanding the foregoing, prior to obtaining the Requisite Shareholder Approval, the Company Board may, directly or indirectly through Representatives, advisors, agents or other intermediaries, subject to the Company's compliance with the provisions of this Section 6.1, with respect to any Person that has made (and not withdrawn) a *bona fide*, written Acquisition Proposal that did not result from a breach of this Section 6.1, and that the Company Board reasonably concludes in good faith (after consultation with a financial advisor of nationally recognized standing and its outside legal counsel) constitutes or is reasonably likely to lead to a Superior Proposal, (A) engage or participate in discussions or negotiations with such Person and/or (B) furnish to such Person any non-public information relating to the

Company or any of its Subsidiaries pursuant to a confidentiality agreement, the terms of which are no less favorable to the Company than those contained in the Confidentiality Agreement, *provided* that in the case of any action taken pursuant to the foregoing clauses (A) or (B), (1) none of the Company or any of its Subsidiaries shall have breached or violated (or be deemed, pursuant to the terms of this Section 6.1, to have breached or violated) the terms of this Section 6.1 in any material respect, (2) the Company Board determines in good faith (after consultation with outside legal counsel) that the failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to the shareholders of the Company under California Law, (3) solely with respect to the initial contact with such Person, at least forty-eight (48) hours prior to engaging or participating in any such discussions or negotiations with, or furnishing any non-public information to, such Person, the Company gives Parent written notice of the identity of such Person and all of the terms and conditions of such Acquisition Proposal (and if such Acquisition Proposal is in written form, the Company shall give Parent a copy thereof) and of the Company's intention to engage or participate in discussions or negotiations with, or furnish non-public information to, such Person and (4) contemporaneously with furnishing any non-public information to such Person, the Company furnishes such non-public information to Parent (to the extent such information has not been previously furnished by the Company to Parent).

(c) Without limiting the generality of the foregoing, Parent, Merger Sub and the Company acknowledge and hereby agree that any violation of the restrictions set forth in this Section 6.1 by any Company Representative shall be deemed to be a breach of this Section 6.1 by the Company. The Company shall not enter into any letter of intent, memorandum of understanding or Contract (other than a confidentiality agreement as permitted by Section 6.1(b)) contemplating or otherwise relating to an Acquisition Proposal unless and until this Agreement is terminated pursuant to Article VIII and the Company has paid all amounts due to Parent pursuant to Section 8.3, if any.

(d) In addition to the obligations of the Company set forth in Section 6.1(b), the Company shall promptly, and in all cases within twenty four (24) hours of its receipt, advise Parent orally and in writing of (i) any Acquisition Proposal, (ii) any request for information that the Company believes or should reasonably expect could be used for the purposes of making, submitting or announcing an Acquisition Proposal or (iii) any inquiry that contributes or would reasonably be expected to lead to, any Acquisition Proposal, the terms and conditions of such Acquisition Proposal, request or inquiry, and the identity of the Person or group making any such Acquisition Proposal, request or inquiry.

(e) The Company shall keep Parent promptly (and in all cases within twenty-four (24) hours) informed of the status, details, terms and conditions (including all amendments or proposed amendments) of any such Acquisition Proposal, request or inquiry, and shall promptly (and in all cases within twenty-four (24) hours) provide Parent with copies of all documents and written or electronic communications comprising part of any such Acquisition Proposal exchanged between the Company or any Company Representative, on the one hand, and the Person from which such Acquisition Proposal was received (or such Person's representatives), on the other hand. In addition to the foregoing, the Company shall

provide Parent with at least seventy-two (72) hours (or such shorter period as provided to the members of the Company Board) prior written notice of a meeting of the Company Board at which the Company Board is reasonably expected to consider an Acquisition Proposal, an inquiry relating to a potential Acquisition Proposal, or a request to provide nonpublic information to any Person.

6.2 Company Board Recommendation.

(a) Subject to the terms of Section 6.2(b), the Company Board shall (i) recommend that the holders of Shares approve this Agreement in accordance with the applicable provisions of California Law (the "Company Board Recommendation") and (ii) include the Company Board Recommendation in the Proxy Statement.

(b) Subject to the terms of this Section 6.2(b), neither the Company Board nor any committee thereof shall withhold, withdraw, amend or modify in a manner adverse to Parent, or publicly propose to withhold, withdraw, amend or modify in a manner adverse to Parent, the Company Board Recommendation (a "Company Board Recommendation Change"); *provided, however*, that notwithstanding the foregoing, the Company Board may effect a Company Board Recommendation Change at any time prior to obtaining the Requisite Shareholder Approval, if and only if:

(i) (A) the Company Board has received a *bona fide*, written Acquisition Proposal that did not result from a breach of Section 6.1 that constitutes a Superior Proposal, (B) neither the Company nor any of its Subsidiaries shall have breached or violated (or be deemed, pursuant to the terms hereof, to have breached or violated) the provisions of Section 6.1 in any material respect, (C) the Company Board determines in good faith (after consultation with outside legal counsel and after considering in good faith any counter-offer or proposal made by Parent pursuant to clause (E) below), that, in light of such Superior Proposal, the failure of the Company Board to effect a Company Board Recommendation Change would reasonably be expected to result in a breach of its fiduciary duties to shareholders of the Company under California Law, (D) prior to effecting such Company Board Recommendation Change, the Company Board shall have given Parent at least five (5) Business Days' notice thereof (which notice shall include the most current version of such definitive agreement and, to the extent not included therein, the material terms and conditions of such Superior Proposal and the identity of the Person making such Superior Proposal) and the opportunity to meet with the Company Board and its outside legal counsel during such five (5) Business Day period, all with the purpose and intent of enabling Parent and the Company to discuss in good faith a modification of the terms and conditions of this Agreement so as to obviate the need for the Company Board to effect a Company Board Recommendation Change, and (E) Parent shall not have made, within five (5) Business Days after receipt of the Company's written notice of its intention to effect a Company Board Recommendation Change, a counter-offer or proposal that the Company Board reasonably determines in good faith, after consultation with a financial advisor of nationally recognized standing and its outside legal counsel, is at least as favorable to shareholders of the Company as such Superior Proposal (it being understood that any change to the financial terms or any other material term

or condition of such Superior Proposal shall require a new notice pursuant to clause (D) above and a new five (5) Business Day period pursuant to this clause (D)); or

(ii) (A) an "Intervening Event" as defined below shall have occurred and be continuing, (B) the Company Board determines in good faith (after consultation with outside legal counsel and after considering in good faith any counter-offer or proposal made by Parent pursuant to clause (D) below), that, in light of such Intervening Event, the failure of the Company Board to effect a Company Board Recommendation Change would reasonably be expected to result in a breach of its fiduciary duties to shareholders of the Company under California Law, (C) prior to effecting such Company Board Recommendation Change, the Company Board shall have given Parent at least five (5) Business Days' notice thereof (which notice shall include a written explanation of the Company Board's basis and rationale for proposing to effect such Company Board Recommendation Change) and the opportunity to meet with the Company Board and its outside legal counsel during such five (5) Business Day period, all with the purpose and intent of enabling Parent and the Company to discuss in good faith a modification of the terms and conditions of this Agreement so as to obviate the need for the Company Board to effect a Company Board Recommendation Change, and (D) Parent shall not have made, within five (5) Business Days after receipt of the Company's written notice of its intention to effect a Company Board Recommendation Change, a counter-offer or proposal that the Company Board reasonably determines in good faith, after consultation with a financial advisor of nationally recognized standing and its outside legal counsel, would obviate the need for the Company Board to effect such Company Board Recommendation Change. For these purposes, an "Intervening Event" means a material fact, event, change, development or set of circumstances occurring or existing after the date of this Agreement with respect to the business, operations, financial condition or results of operations of the Company or any of its Subsidiaries (and not relating in any way to (x) an Acquisition Proposal or (y) any fluctuation in the market price or trading volume of the Shares, in and of itself) that was not known to the Company Board nor reasonably foreseeable by the Company Board as of or prior to the date of this Agreement.

(c) Nothing in this Agreement shall prohibit the Company Board from taking and disclosing to shareholders of the Company a position contemplated by Rule 14e-2(a) under the Exchange Act that the Company Board determines in good faith (after consultation with outside legal counsel) that such disclosure is likely required in order to comply with its fiduciary duties to shareholders of the Company under California Law; *provided* that any statement(s) made by the Company Board pursuant to this sentence shall be subject to the terms and conditions of this Agreement, including the provisions of Article VIII (it being acknowledged and agreed that any such disclosure, other than a "stop, look and listen" communication of the type contemplated by Section 14d-9(f) of the Exchange Act or any other disclosure made pursuant to Section 6.2(c) that is limited to describing the existence and terms of any Acquisition Proposal, shall be deemed to be in a Company Board Recommendation Change unless the Company Board expressly publicly reaffirms the Company Board Recommendation in such communication).

(d) The Company shall not take any action to exempt any Person (other than Parent, Merger Sub and their respective Affiliates) from the provisions on "control share acquisitions" contained in any Takeover Law or otherwise cause such restrictions not to apply. To the extent permitted thereunder, the Company shall promptly take all steps necessary to terminate any waiver or other exemption that may have been heretofore granted to any such Person or any Acquisition Proposal under any such provision.

6.3 Company Shareholders' Meeting. The Company shall establish a record date for, call, give notice of, convene and hold a meeting of the shareholders of the Company (the "Company Shareholders' Meeting") as promptly as practicable following the date of this Agreement (and in no event later than 30 days after the commencement of the mailing of the Proxy Statement to the Company's shareholders) for the purpose of voting upon the adoption of this Agreement in accordance with California Law. Notwithstanding the foregoing, (i) if there are insufficient shares of the Company Common Stock necessary to conduct business at the Company Shareholders' Meeting, the Company may extend the date of the Company Shareholders' Meeting to the extent (and only to the extent) necessary in order to conduct business at the Company Shareholders' Meeting, (ii) the Company may delay the Company Shareholders' Meeting to the extent (and only to the extent) the Company reasonably determines that such delay is required by applicable Law to comply with comments made by the SEC with respect to the Proxy Statement, and (iii) with the prior written consent of Parent or if Parent requests an extension, the Company shall delay the Company Shareholders' Meeting for a period not to exceed ten (10) Business Days. The Company shall solicit from shareholders of the Company proxies in favor of the adoption of this Agreement in accordance with California Law, and shall use its reasonable best efforts to secure the Requisite Shareholder Approval at the Company Shareholders' Meeting. Unless this Agreement is earlier terminated pursuant to Article VIII, the Company shall establish a record date for, call, give notice of, convene and hold the Company Shareholders' Meeting for the purpose of voting upon the adoption of this Agreement in accordance with California Law, whether or not the Company Board at any time subsequent to the date hereof shall have effected a Company Board Recommendation Change or otherwise shall determine that this Agreement is no longer advisable or recommends that shareholders of the Company reject it. Unless this Agreement has been terminated pursuant to Section 8.1(d)(ii), the Company's obligation to establish a record date for, call, give notice of, convene and hold the Company Shareholders' Meeting pursuant to this Section 6.3 shall not be limited to, or otherwise affected by, the commencement, disclosure, announcement or submission to the Company of any Acquisition Proposal.

6.4 Proxy Statement.

(a) As soon as practicable following the date of this Agreement, the Company shall prepare and no later than the tenth (10^{th}) Business Day following the public announcement of the execution and delivery of this Agreement, the Company shall file with the SEC the Proxy Statement for use in connection with the solicitation of proxies from shareholders of the Company in connection with the Merger and the Company Shareholders' Meeting. The Company and Parent, as the case may be, shall furnish all information

concerning the Company or Parent as the other party hereto may reasonably request in connection with the preparation and filing with the SEC of the Proxy Statement. Subject to all applicable Laws, the Company shall use its reasonable best efforts to cause the Proxy Statement to be disseminated to shareholders of the Company as promptly as practicable following the filing thereof with the SEC. Notwithstanding anything to the contrary set forth in this Agreement, the Company shall file with the SEC the definitive Proxy Statement, and shall cause the mailing of the definitive Proxy Statement to the shareholders of the Company, on or prior to the second (2nd) Business Day immediately following the later of (i) receipt and resolution of SEC comments thereon, or (ii) the expiration of the 10-day waiting period provided in Rule 14a-6(a) promulgated under the Exchange Act. No filing of, or amendment or supplement to, or correspondence with the SEC or its staff with respect to the Proxy Statement shall be made by the Company without providing Parent a reasonable opportunity to review and comment thereon, including in such filings, amendments, supplements and correspondence all comments reasonably proposed by Parent and receiving the approval of Parent (which approval shall not be unreasonably withheld or delayed). The Company shall advise Parent, promptly after it receives notice thereof, of any request by the SEC or its staff for an amendment or revisions to the Proxy Statement, or comments thereon and responses thereto, or requests by the SEC or its staff for additional information in connection therewith, and shall provide Parent with copies of all correspondence between the Company or any of its advisors or representatives, on the one hand, and the SEC, or its staff or any other government officials, on the other hand, with respect to the Proxy Statement or other filing with the SEC. If the Company or its outside legal counsel intends to initiate a telephone conference or meet with the SEC and its staff related to the Proxy Statement, this Agreement or the Merger, the Company shall so inform the Parent and solicit input on the items planned to be discussed during such telephone conference or meeting. If at any time prior to the Company Shareholders' Meeting, any information relating to the Company or Parent, or any of their respective directors, officers or Affiliates, should be discovered by the Company or Parent which should be set forth in an amendment or supplement to the Proxy Statement so that the Proxy Statement does not include any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party or parties hereto, as the case may be, and an appropriate amendment or supplement to the Proxy Statement describing such information shall be promptly prepared and filed with the SEC and, to the extent required by applicable Law, disseminated to the shareholders of the Company. The Company shall cause the Proxy Statement to comply as to form and substance in all material respects with the applicable requirements of the Exchange Act, California Law and the rules of the Nasdaq.

(b) Unless this Agreement is earlier terminated pursuant to Article VIII, subject to the terms of Section 6.2(b), the Company shall include in the Proxy Statement the Company Board Recommendation.

6.5 Reasonable Best Efforts to Complete.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of Parent, Merger Sub and the Company shall use their reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other party or parties hereto in doing, all things reasonably necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement (including the Merger), including using reasonable best efforts to: (i) cause the conditions to the Merger set forth in Article VII hereof to be satisfied or fulfilled; (ii) obtain all necessary or appropriate consents, waivers and approvals under any Contracts to which the Company or any of its Subsidiaries is a party in connection with this Agreement and the consummation of the transactions contemplated hereby (including the Merger) so as to maintain and preserve the benefits under such Contracts following the consummation of the transactions contemplated hereby (including the Merger); (iii) obtain all necessary actions or non-actions, waivers, consents, approvals, Orders and authorizations from Governmental Entities, the expiration or termination of any applicable waiting periods, making all necessary registrations, declarations and filings (including registrations, declarations and filings with Governmental Entities, if any) and (iv) execute or deliver any additional instruments reasonably necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement.

(b) Without limiting the generality of the foregoing provisions of Section 6.5(a), as soon as may be reasonably practicable following the execution and delivery of this Agreement, each of Parent and the Company shall file with the FTC and the Antitrust Division of the DOJ a Notification and Report Form relating to this Agreement and the transactions contemplated hereby (including the Merger) as required by the HSR Act, as well as comparable pre-merger notification filings, forms and submissions with any foreign Governmental Entity that may be required by the merger notification or control Laws and regulations of any applicable foreign jurisdiction or be deemed desirable by Parent, in each case as Parent may deem necessary and/or appropriate. Each of Parent and the Company shall promptly (i) cooperate and coordinate with the other in the making of such filings, (ii) supply the other with any information that may be required in order to effectuate such filings, and (iii) supply any additional information that reasonably may be required or requested by the FTC, the DOJ or the competition or merger control authorities of any other jurisdiction and that Parent reasonably deems necessary and/or appropriate. Parent and the Company shall share equally all fees and expenses incurred in connection with filings made in connection with this Section 6.5(b). Each party hereto shall promptly inform the other party or parties hereto, as the case may be, of any communication from any Governmental Entity regarding any of the transactions contemplated by this Agreement (including the Merger). If any party hereto or Affiliate thereof receives a request for additional information or documentary material from any such Governmental Entity with respect to the transactions contemplated by this Agreement (including the Merger), then such party shall use reasonable best efforts to make, or cause to be made, as soon as reasonably practicable and after consultation with the other party, an appropriate response in compliance with such request.

(c) Without limiting the generality of the foregoing provisions of Section 6.5(a), in the event that any Takeover Law is or becomes applicable to this Agreement or any of the transactions contemplated by this Agreement (including the Merger), the Company, at the direction of the Company Board, shall use reasonable best efforts to ensure that the transactions contemplated by this Agreement (including the Merger) may be consummated as promptly as practicable on the terms and subject to the conditions set forth in this Agreement, and otherwise to minimize the effect of such statute or regulation on this Agreement and the transactions contemplated hereby (including the Merger).

(d) Notwithstanding anything in this Agreement to the contrary, it is expressly understood and agreed that: (i) neither Parent nor Merger Sub shall have any obligation to litigate or contest any administrative or judicial action or proceeding or any decree, judgment, injunction or other order, whether temporary, preliminary or permanent; and (ii) neither Parent nor Merger Sub shall be under any obligation to make proposals, execute or carry out agreements, enter into consent decrees or submit to orders providing for (A) the sale, divestiture, license or other disposition or holding separate (through the establishment of a trust or otherwise) of any assets or categories of assets of Parent or any of its Subsidiaries or the Company or any of its Subsidiaries, (B) the imposition of any limitation or regulation on the ability of Parent or any of its Subsidiaries to freely conduct their business or own such assets, or (C) the holding separate of the shares of Company Common Stock or any limitation or regulation on the ability of Parent or any of its Subsidiaries to exercise full rights of ownership of the shares of Company Common Stock, other than, in the case of clauses (A), (B) and (C) above, for any such sale, divestiture, license, disposition, holding separate, limitation or regulation that, individually or in the aggregate, would be immaterial to Parent and/or the Company and their respective Subsidiaries, taken as a whole (with materiality, for purposes of this provision, being measured in relation to the Company and its Subsidiaries taken as a whole) (any of the foregoing, an "Antitrust Restraint").

6.6 Access.

(a) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, the Company shall afford Parent and its accountants, legal counsel and other representatives full and complete access during normal business hours, upon reasonable notice, to the assets (including the Company IP, design processes and source code), properties (including the right to conduct an environmental site assessment and audit of the properties), books and records and personnel of the Company to enable Parent to obtain all information concerning the business, including the status of product development efforts, properties, results of operations and personnel of the Company, as Parent may request; *provided, however*, that no information or knowledge obtained by Parent in any investigation conducted pursuant to this Section 6.6 shall affect or be deemed to modify any representation or warranty of the Company set forth herein or the conditions to the obligations of Parent and Merger Sub to consummate the transactions contemplated hereby, including the Merger, or the remedies available to the parties hereunder; and *provided further*, that the terms and conditions of the Confidentiality Agreement (as

amended pursuant to Section 6.9) shall apply to any information provided to Parent pursuant to this Section 6.6.

(b) In particular, but without limitation, from and after the date of this Agreement, Parent and its agents, contractors and representatives shall have the right and privilege of entering upon all properties leased or occupied by the Company or any of its Subsidiaries and of reviewing the Company's books and records regarding such properties from time to time as needed to make any inspections, evaluations, surveys or tests which Parent may deem necessary or appropriate. Parent's exercise of its right to inspect such properties, or Parent's election not to inspect any property, shall in no way be interpreted as a waiver of any of Parent's rights or remedies contained in this Agreement, including, without limitation, Parent's right to rely upon the Company's representations and warranties in this Agreement.

(c) Parent and the Company agree to mutually cooperate in testing the Company's IT systems for compatibility and interoperability with Parent's IT systems and in other like matters as reasonably requested by Parent prior to Closing. In particular, but without limitation, from and after the date of the satisfaction of the condition set forth in Section 7.1(b), the Company shall provide to Parent the information described on Schedule 6.6(c) for purposes of allowing Parent to test its internal business systems ability to accept and process Company data.

6.7 Notification.

(a) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, the Company shall give prompt notice to Parent upon becoming aware that any representation or warranty made by it in this Agreement has become untrue or inaccurate in any material respect if such would give rise to the ability of the Parent not to close under Section 7.2(a), or of any failure of the Company to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; *provided, however*, that no such notification shall affect or be deemed to modify any representation or warranty of the Company set forth herein or the conditions to the obligations of Parent and Merger Sub to consummate the transactions contemplated hereby, including the Merger, or the remedies available to the parties hereunder; and *provided further*, that the terms and conditions of the Confidentiality Agreement (as amended pursuant to Section 6.9) shall apply to any information provided to Parent pursuant to this Section 6.7(a).

(b) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, the Company shall give prompt notice to Parent of any notice or other communication received by the Company or any of its Subsidiaries from any third party, subsequent to the date of this Agreement and prior to the Effective Time, alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement (including the Merger);

provided, however, that no such notification shall affect or be deemed to modify any representation or warranty of the Company set forth herein or the conditions to the obligations of Parent and Merger Sub to consummate the transactions contemplated hereby, including the Merger, or the remedies available to the parties hereunder; and *provided further*, that the terms and conditions of the Confidentiality Agreement (as amended pursuant to Section 6.9) shall apply to any information provided to Parent pursuant to this Section 6.7(b).

(c) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of (x) the termination of this Agreement pursuant to Article VIII and (y) the Effective Time, Parent shall give prompt notice to the Company upon becoming aware that any representation or warranty made by it or Merger Sub in this Agreement has become untrue or inaccurate in any material respect if such would give rise to the ability of the Company not to close under Section 7.3(a), or of any failure of Parent or Merger Sub to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; *provided, however*, that no such notification shall affect or be deemed to modify any representation or warranty of the Company set forth herein or the conditions to the obligations of Parent and Merger Sub to consummate the transactions contemplated hereby, including the Merger, or the remedies available to the parties hereunder and *provided further*, that the terms and conditions of the Confidentiality Agreement (as amended pursuant to Section 6.9) shall apply to any information provided to the Company pursuant to this Section 6.7(c).

6.8 Certain Litigation. The Company shall promptly advise Parent orally and in writing of any litigation commenced after the date hereof against the Company or any of its directors by any shareholder of the Company (on their own behalf or on behalf of the Company) relating to this Agreement or the transactions contemplated hereby (including the Merger) and shall keep Parent reasonably informed regarding any such litigation. The Company shall give Parent the opportunity to consult with the Company regarding the defense or settlement of any such shareholder litigation and shall consider Parent's views with respect to such shareholder litigation and shall not settle any such shareholder litigation without the prior written consent of Parent.

6.9 Confidentiality. Parent, Merger Sub and the Company hereby acknowledge that Parent and the Company have previously executed a Confidentiality Agreement, dated January 14, 2014 (the "Confidentiality Agreement"), which will continue in full force and effect in accordance with its terms; *provided, however*, that notwithstanding the foregoing, effective as of the execution and delivery hereof, the Confidentiality Agreement shall be deemed to be amended so as to permit Parent to take any action contemplated by this Agreement, including the making of any counter-offer or proposal contemplated by Section 6.2(b) (which deemed amendment shall survive any termination of this Agreement in accordance with its terms or otherwise).

6.10 Public Disclosure. None of the parties shall, without the prior written consent of other party or parties, as applicable, issue any press release or otherwise make any public statement with respect to this Agreement or the transactions contemplated hereby (including

the Merger), except as may be required by applicable Law or any listing agreement with a national securities exchange, in which case such party shall make commercially reasonable efforts to consult with the other party or parties prior to any such release or public statement. Notwithstanding the foregoing, Parent and the Company may make public statements in response to specific questions by the press, analysts or investors so long as any such statement is consistent with previous public statements permitted by this Section 6.10.

6.11 Company Options.

(a) At the Effective Time, each Company Option (or portion thereof) that is outstanding and vested as of immediately prior to the Effective Time (or vests as a result of the consummation of the transactions contemplated hereby) (each, a "Cancelled Option") shall, by virtue of the Merger and at the direction of Parent (which is hereby given pursuant to this Agreement), be cancelled and terminated and converted into the right to receive an amount in cash, without interest, with respect to each share underlying such Cancelled Option, equal to the excess, if any, of the Merger Consideration over the per share exercise price of such Cancelled Option (such amount being hereinafter referred to as the "Option Consideration"). The holder of each Cancelled Option shall receive at the Effective Time from the Company, or as soon as practicable thereafter (but in no even later than the Company's first full payroll after the Effective Time) from the Surviving Corporation, an amount in cash equal to the Option Consideration. If the exercise price per share of any such Cancelled Option is equal to or greater than the Merger Consideration, such Company Option shall, by direction of Parent (which is hereby given pursuant to this Agreement), be cancelled without any cash payment being made in respect thereof. The payment of Option Consideration to the holder of a Cancelled Option shall be reduced by any income or employment tax withholding required under the Code, any applicable Law, or as otherwise agreed by the parties at the time the Company Option was granted.

(b) At the Effective Time, each Company Option (or portion thereof) that is outstanding and unvested as of immediately prior to the Effective Time (and does not vest as a result of the consummation of the transactions contemplated hereby) shall be assumed by Parent (each, an "Assumed Option"). Each such Assumed Option shall be subject to substantially the same terms and conditions as applied to the related Company Option immediately prior to the Effective Time, including the vesting schedule applicable thereto, except that (A) the number of shares of Parent Common Stock subject to each Assumed Option shall be equal to the product of (x) the number of shares of Company Common Stock underlying such unvested Assumed Option as of immediately prior to the Effective Time multiplied by (y) the Exchange Ratio (with the resulting number rounded down to the nearest whole share), and (B) the per share exercise price of each Assumed Option shall be equal to the quotient determined by dividing (x) the exercise price per share at which such Assumed Option was exercisable immediately prior to the Effective Time by (y) the Exchange Ratio (with the resulting price per share rounded up to the nearest whole cent). Each Assumed Option so assumed by Parent shall qualify following the Effective Time as an incentive stock option as defined in Section 422 of the Code to the extent permitted under Section 422 of the Code and to the extent such Assumed Option qualified as an incentive stock option prior to

the Effective Time, and, further, that the assumption of Assumed Options pursuant to this Section 6.11(b) shall be effected in a manner that satisfies the requirements of Sections 409A and 424(a) of the Code and the Treasury Regulations promulgated thereunder, and this Section 6.11(b) will be construed consistent with this intent.

6.12 Employee Matters.

(a) The Company shall terminate, effective no later than the day immediately preceding the date the Company becomes a member of the same Controlled Group of Corporations (as defined in Section 414(b) of the Code) as Parent (the "Retirement Plan Termination Date"), any and all employee retirement plans qualified under Section 401(a) of the Code (the "Retirement Plans") maintained by the Company or any of its Subsidiaries, unless Parent provides written notice to the Company at least three (3) Business Days prior to the Effective Time that such Retirement Plans shall not be terminated. The Company shall provide Parent evidence that the Retirement Plans of the Company and its Subsidiaries have been terminated pursuant to resolutions of the Company Board or the board of directors of its Subsidiaries, as applicable. The form and substance of such resolutions shall be subject to the review and approval of Parent. The Company shall also take such other actions in furtherance of terminating any such Retirement Plans as Parent may reasonably request. As soon as practicable following the Retirement Plan Termination Date, Parent shall permit all Continuing Employees who were eligible to participate in any 401(k) plan maintained by the Company or any of its Subsidiaries immediately prior to the Retirement Plan Termination Date to participate in Parent's 401(k) plan, and shall permit each such Continuing Employee to elect to transfer his or her account balance when distributed from any terminated 401(k) plan maintained by the Company or any of its Subsidiaries, including any outstanding participant loans from such 401(k) plans, to Parent's 401(k) plan, except to the extent accepting such transfers would adversely affect the tax-qualified status of the Parent 401(k) plan, or as may be prohibited by Parent's 401(k) plan.

(b) From and after the Effective Time through the date which is five (5) months after the date on which the Effective Time occurs, or such longer period as may be required by applicable Law, Parent will provide, or will cause to be provided, to all Continuing Employees who remain employed by Parent or any Subsidiary of Parent, compensation and benefits that are substantially comparable in the aggregate to the compensation and benefits provided to such Continuing Employees immediately prior to the Effective Time (excluding benefits derived from awards under any equity incentive plan). Following the Effective Time and to the extent permitted by applicable Laws, Parent shall, or shall cause any Subsidiary of Parent, including the Surviving Corporation to, recognize the prior service with the Company or its Subsidiaries of Continuing Employees in connection with all employee benefit plans, programs or policies of Parent or its Subsidiaries in which Continuing Employees first become eligible to participate following the Effective Time for purposes of eligibility and vesting and determination of level of benefits (including vacation), including applicability of minimum waiting periods for participation, (but not to the extent that such recognition would result in duplication of benefits). In these regards, for purposes of determining the annual deductible, co-pay and out-of pocket expense limitation under its health plan for Continuing Employees

who become eligible during the 2014 plan year, Parent will credit health plan expenses incurred by Continuing Employees during 2014 prior to the Effective Time as though they were incurred immediately after the Effective Time. Parent shall use commercially reasonable efforts to provide that no such Continuing Employee, or any of his or her eligible dependents, who are participating in the Company's group health plan shall be excluded from Parent's group health plan, or limited in coverage thereunder, by reason of any waiting period restriction or pre-existing condition limitation.

(c) The Company shall terminate any and all group severance, separation, deferred compensation or salary continuation plans, programs or arrangements maintained by the Company or any of its Subsidiaries, effective in each case no later than the day immediately preceding the Effective Time. The Company shall provide Parent evidence that such plans have been terminated pursuant to resolutions of the Company Board or the board of directors of its Subsidiaries, as applicable (the form and substance of which resolutions shall be subject to review and approval of Parent).

(d) Prior to the Effective Time, the Company ESPP shall be terminated. The rights of participants in the Company ESPP with respect to any offering period then underway under such Company ESPP shall be determined by treating the last business day prior to, or if preferable administratively, the last payroll date of the Company immediately prior to, the Effective Time, as the last day of such offering period and by making such other pro-rata adjustments as may be necessary to reflect the shortened offering period but otherwise treating such shortened offering period as a fully effective and completed offering period for all purposes under such Company ESPP. The Company shall provide that no additional offering period or purchase period shall commence under the Company ESPP after March 31, 2014. Prior to the Effective Time, and subject to the reasonable review and approval by Parent, the Company shall take all actions necessary give effect to the transactions contemplated by this Section 6.12(d).

(e) Nothing in this Agreement shall (x) create any third-party beneficiary rights in any employee or former employee (including any beneficiary or dependent thereof) or service provider or former service provider (including any beneficiary or dependent thereof) of the Company in any respect, or (y) constitute or be construed to constitute an amendment to any of the compensation or benefit plans maintained for or provided to employees or other persons prior to or following the Closing. Nothing in this Agreement shall constitute a limitation on the rights to amend, modify or terminate any such plans or arrangements of Parent or any of its subsidiaries.

6.13 Directors' and Officers' Indemnification and Insurance.

(a) For six (6) years after the Effective Time, Parent shall cause the Surviving Corporation and its Subsidiaries to, honor and fulfill in all respects the obligations (including the financial obligations) of the Company and its Subsidiaries under their respective certificates of incorporation and bylaws (and other similar organizational documents) and all indemnification agreements in effect immediately prior to the Effective Time between the Company or any of its Subsidiaries and any of their respective current or former directors and

officers and any person who becomes a director or officer of the Company or any of its Subsidiaries prior to the Effective Time (the "Indemnified Parties"). In addition, for a period of six (6) years following the Effective Time, Parent shall (and shall cause the Surviving Corporation and its Subsidiaries to) cause the articles of incorporation and bylaws (and other similar organizational documents) of the Surviving Corporation and its Subsidiaries to contain provisions with respect to indemnification and exculpation that are at least as favorable as the indemnification and exculpation provisions contained in the articles of incorporation and bylaws (or other similar organizational documents) of the Company and its Subsidiaries immediately prior to the Control Time, and during such six (6) year period, such provisions shall not be amended, repealed or otherwise modified in any manner that would adversely affect the rights thereunder of individuals who were covered by such provisions, except as required by Laws.

(b) For a period of six (6) years after the Effective Time, Parent and the Surviving Corporation shall maintain in effect the Company's current directors' and officers' liability insurance ("D&O Insurance") in respect of acts or omissions occurring at or prior to the Effective Time, covering each person covered by the D&O Insurance immediately prior to the Effective Time, on terms with respect to the coverage and amounts no less favorable, in the aggregate, than those of the D&O Insurance in effect on the date of this Agreement; *provided, however*, that the Surviving Corporation may, at its option, substitute therefor policies of Parent, the Surviving Corporation or any of their respective Subsidiaries containing terms with respect to coverage and amounts no less favorable, in the aggregate, to such persons than the D&O Insurance, *provided further, however*, that in satisfying its obligations under this Section 6.13(b) Parent and the Surviving Corporation shall not be obligated to pay annual premiums in excess of two hundred percent (200%) of the amount paid by the Company for coverage for its last full fiscal year (such two hundred percent (200%) amount, the "Maximum Annual Premium") (which premiums the Company represents and warrants to be as set forth in Section 6.13 of the Company Disclosure Letter), provided that that if the annual premiums of such insurance coverage exceed such amount, Parent and the Surviving Corporation shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding the Maximum Annual Premium. Prior to the Effective Time, notwithstanding anything to the contrary set forth in this Agreement, the Company may purchase a six-year "tail" prepaid policy (the "Tail Policy") on the D&O Insurance on terms and conditions no less favorable, in the aggregate, than the D&O Insurance and for an amount not to exceed three hundred fifty percent (350%) of the amount paid by the Company for coverage for its last full fiscal year. In the event that the Company does not purchase the Tail Policy, Parent may purchase a Tail Policy on the D&O Insurance on terms and conditions no less favorable, in the aggregate, than the D&O Insurance. In the event that either the Company or Parent shall purchase such a Tail Policy prior to the Effective Time, Parent and the Surviving Corporation shall maintain such Tail Policy in full force and effect and continue to honor their respective obligations thereunder, in lieu of all other obligations of Parent and the Surviving Corporation under the first sentence of this Section 6.13(b) for so long as such Tail Policy shall be maintained in full force and effect.

(c) If Parent or the Surviving Corporation or any of its successors or assigns shall (i) consolidate with or merge into any other entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfer all or substantially all of its properties and assets to any entity, then, and in each such case, proper provision shall be made so that the successors and assigns of such surviving corporation shall expressly assume all of the obligations of Parent and the Surviving Corporation set forth in this Section 6.13 and have at least substantially equal financial ability as the Company (immediately prior to such transaction) to satisfy the obligations of the parties pursuant to this Section 6.13 prior to such merger, consolidation or transfer becoming effective.

(d) The obligations under this Section 6.13 shall not be terminated, amended or otherwise modified in such a manner as to adversely affect any Indemnified Party (or any other person who is a beneficiary under the Tail Policy referred to in Section 6.13(b) (and their heirs and representatives)) without the prior written consent of such affected Indemnified Party or other person who is a beneficiary under the Tail Policy referred to in Section 6.13(b) (and their heirs and representatives). Each of the Indemnified Parties or other persons who are beneficiaries under the D&O Insurance or the Tail Policy referred to in Section 6.13(b) (and their heirs and representatives) are intended to be third party beneficiaries of this Section 6.13, with full rights of enforcement as if a party thereto. The rights of the Indemnified Parties (and other persons who are beneficiaries under the Tail Policy referred to in Section 6.13(b) (and their heirs and representatives)) under this Section 6.13 shall be in addition to, and not in substitution for, any other rights that such persons may have under the certificate or articles of incorporation, bylaws or other equivalent organizational documents, any and all indemnification agreement of or entered into by the Company or any of its Subsidiaries, or applicable Laws.

6.14 Obligations of Merger Sub. Parent shall take all action necessary to cause Merger Sub and the Surviving Corporation to perform their respective obligations under this Agreement and to consummate the transactions contemplated by this Agreement, including the Merger, upon the terms and subject to the conditions set forth in this Agreement.

6.15 Insurance Policies. The Company shall take all actions reasonably necessary to ensure that all of its current and legacy insurance policies are available for the benefit of the Surviving Corporation, including with respect any instances where an occurrence and/or claim takes place before the Effective Time and is not made known until after the Effective Time.

ARTICLE VII
CONDITIONS TO THE MERGER

7.1 Conditions to the Obligations of Each Party to Effect the Merger. The respective obligations of Parent, Merger Sub and the Company to consummate the Merger shall be subject to the satisfaction or waiver (where permissible under applicable Law) prior to the Effective Time, of each of the following conditions:

(a) Requisite Shareholder Approval. The Requisite Shareholder Approval shall have been obtained.

(b) Antitrust and Other Governmental Approvals. The waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated by this Agreement (including the Merger) under the HSR Act shall have expired or been terminated.

(c) No Legal Prohibition. No Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, entered or enforced any Law that is in effect and has the effect of making the Merger illegal in any jurisdiction or which has the effect of prohibiting or otherwise preventing the consummation of the Merger in any jurisdiction. No court of competent jurisdiction shall have issued or granted any Order (whether temporary, preliminary or permanent) that has the effect of making the Merger illegal in any jurisdiction or which has the effect of prohibiting or otherwise preventing the consummation of the Merger in any jurisdiction.

7.2 Additional Conditions to the Obligations of Parent and Merger Sub to Effect the Merger. The obligations of Parent and Merger Sub to consummate the Merger shall be further subject to the satisfaction or waiver (where permissible under applicable Law) prior to the Effective Time, of each of the following conditions, any of which may be waived (in writing) exclusively by Parent and Merger Sub:

(a) Representations and Warranties. (i) Each of the representations and warranties of the Company set forth in this Agreement (other than the Capitalization Representation and the Specified Representations) shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all respects on and as of the Closing Date with the same force and effect as if made on and as of such date (except for those representations and warranties which address matters only as of a particular date (the accuracy of which shall be determined as of such particular date)), except for any failure to be so true and correct that does not have, individually or in the aggregate, a Company Material Adverse Effect, (ii) each of the representations and warranties set forth in Section 3.1 (Organization and Standing), Section 3.2 (Subsidiaries), Section 3.3 (Authorization), Section 3.27 (Brokers; Fees and Expenses), Section 3.28 (Opinion of Financial Advisors) and Section 3.29 (State Anti-Takeover Statutes) of this Agreement (collectively, the "Specified Representations") shall have been true and correct in all materials respects as of the date of this Agreement and shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as if made on and as of such date (except for those representations and warranties which address matters only as of a particular date (the accuracy of which shall be determined as of such particular date)), and (iii) the representations and warranties set forth in Section 3.4 (Capitalization) of this Agreement (the "Capitalization Representation") shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all respects as of the Closing Date with the same force and effect as if made on and as of such date (except for those representations and warranties which address matters only as of a particular date (the accuracy of which shall be determined as of

such particular date)), except for any failure to be so true and correct that would not result in Liabilities to Parent (including as a result of the payment of consideration in respect of additional Shares, shares of other Company Capital Stock, Company Options, Company Securities or Subsidiary Securities in connection with the Merger) that exceed One Million Dollars ($1,000,000.00); and *provided further* that, for purposes of determining the accuracy of the representations and warranties of the Company set forth in this Agreement for purposes of Section 7.2(a)(i), (A) all "Company Material Adverse Effect" and materiality qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded (it being understood and hereby agreed that (x) the phrase "similar phrases" as used in this proviso shall not be deemed to include any dollar thresholds contained in any such representations and warranties and (y) such qualifications shall not be disregarded pursuant to the terms of this proviso in the representation and warranty set forth in Section 3.10(a)(i)) and (B) any update of or modification to the Company Disclosure Letter made or purported to have been made after the date of this Agreement shall be disregarded).

(b) Covenants and Agreements. The Company shall have performed or complied with in all material respects each of its obligations, covenants and agreements under this Agreement required to be performed or complied with at or prior to the Closing Date.

(c) Company Material Adverse Effect. No Company Material Adverse Effect shall have occurred or exist following the execution and delivery of this Agreement (whether or not events or circumstances occurring prior to the execution and delivery of this Agreement caused or contributed to the occurrence of such Company Material Adverse Effect) and shall be continuing.

(d) Closing Certificate. Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and chief financial officer of the Company certifying as to the satisfaction of the matters set forth in paragraphs (a), (b) and (c) of this Section 7.2.

(e) Government Actions. No Governmental Entity of competent jurisdiction shall have instituted any action, which is pending, seeking to impose an Antitrust Restraint in connection with the Merger.

7.3 Additional Conditions to the Obligations of the Company to Effect the Merger. The obligations of the Company to consummate the Merger shall be further subject to the satisfaction or waiver (where permissible under applicable Law) prior to the Effective Time, of each of the following conditions, any of which may be waived (in writing) exclusively by the Company:

(a) Representations and Warranties. (i) Each of the representations and warranties of Parent and Merger Sub set forth in Section 4.1 and Section 4.2 shall have been true and correct in all material respects as of the date of this Agreement and shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as if made on and as of such date, and (ii) each of the representations and warranties of Parent

and Merger Sub set forth in this Agreement other than those set forth in Section 4.1 and Section 4.2 shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all respects on and as of the Closing Date with the same force and effect as if made on and as of such date, except for any failure to be so true and correct that does not have, individually or in the aggregate, a Parent Material Adverse Effect, except for those representations and warranties which address matters only as of a particular date (the accuracy of which shall be determined as of such particular date) and *provided further* that, for purposes of determining the accuracy of the representations and warranties of the Company set forth in this Agreement for purposes of Section 7.3(a)(ii), (A) all "Parent Material Adverse Effect" and materiality qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded.

(b) Covenants and Agreements. Each of Parent and Merger Sub shall have performed or complied with in all material respects each of their respective obligations, covenants and agreements under this Agreement required to be performed or complied with at or prior to the Closing Date.

(c) Closing Certificate. The Company shall have received a certificate signed on behalf of Parent and Merger Sub by a duly authorized officer of Parent and Merger Sub as to the satisfaction of the matters set forth in paragraphs (a) and (b) of this Section 7.3.

ARTICLE VIII
TERMINATION, AMENDMENT AND WAIVER

8.1 Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after receipt of the Requisite Shareholder Approval (except as provided below), provided that the party desiring to terminate this Agreement pursuant to this Section 8.1 (other than pursuant to Section 8.1(a)) shall give notice of such termination to the other party or parties hereto, only as follows (with any termination by Parent also being an effective termination by Merger Sub):

(a) by mutual written agreement of Parent and the Company; or

(b) by either Parent or the Company, if (i) the Company Shareholders' Meeting shall have been held and the Requisite Shareholder Approval shall not have been obtained thereat or at any adjournment or postponement thereof, or (ii) any applicable Law makes consummation of the Merger illegal or any Governmental Entity of competent jurisdiction shall have issued a final and non-appealable Order enjoining, restraining or otherwise prohibiting the consummation of the Merger; or

(c) by either Parent or the Company, if the Effective Time shall not have occurred on or before July 14, 2014 (the "Termination Date"); *provided however*, that the right to terminate this Agreement pursuant to this Section 8.1(c) shall not be available to any party hereto whose failure to fulfill any obligation under this Agreement has been the principal

cause of or resulted in the failure of the Effective Time to have occurred on or before the Termination Date; or

(d) by the Company:

(i) in the event (A) of a breach of any covenant or agreement on the part of Parent or Merger Sub set forth in this Agreement or (B) that any of the representations and warranties of Parent and Merger Sub set forth in this Agreement shall have been inaccurate when made or shall have become inaccurate, in either case such that the conditions set forth in Section 7.3(a) or Section 7.3(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate; *provided, however*, that notwithstanding the foregoing, in the event that such breach by Parent or Merger Sub or such inaccuracies in the representations and warranties of Parent or Merger Sub are curable by Parent or Merger Sub through the exercise of commercially reasonable efforts, then the Company shall not be permitted to terminate this Agreement pursuant to this Section 8.1(d)(i) until the earlier to occur of (1) thirty (30) calendar days after delivery of written notice from the Company to Parent of such breach or inaccuracy, as applicable or (2) the Termination Date (it being understood that the Company may not terminate this Agreement pursuant to this Section 8.1(d)(i) if such breach or inaccuracy by Parent or Merger Sub is cured within such period or if the Company is then in material breach of any covenant, agreement, representation or warranty contained in this Agreement; or

(ii) prior to obtaining the Requisite Shareholder Approval, in order to enter into a definitive agreement with respect to a Superior Proposal, provided that (A) in accordance with Section 6.2(b)(i), the Company Board has effected a Company Board Recommendation Change and authorized the Company to enter into a definitive agreement for a transaction that constitutes a Superior Proposal, (B) immediately prior to the termination of this Agreement, the Company pays to Parent the Termination Fee Amount payable pursuant to Section 8.3(b)(ii) and (C) immediately following such termination, the Company enters into a definitive agreement with respect to such Superior Proposal; or

(e) by Parent:

(i) in the event (A) of a breach of any covenant or agreement on the part of the Company set forth in this Agreement or (B) that any representation or warranty of the Company set forth in this Agreement shall have been inaccurate when made or shall have become inaccurate, in either case such that such that the conditions set forth in Section 7.2(a) or Section 7.2(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate; *provided, however*, that notwithstanding the foregoing, in the event that such breach by the Company or such inaccuracies in the representations and warranties of the Company are curable by the Company through the exercise of commercially reasonable efforts, then Parent shall not be permitted to terminate this Agreement pursuant to this Section 8.1(e)(i) until the earlier to occur of (1) thirty (30) calendar days period after delivery of written notice from Parent to the Company of such breach or inaccuracy, as applicable, or (2) the Termination Date (it being understood that Parent may not terminate this Agreement pursuant to this Section 8.1(e)(i) if such breach

or inaccuracy by the Company is cured within such period or if Parent or Merger Sub is then in material breach of any covenant, agreement, representation or warranty contained in this Agreement; or

(ii) in the event that a Triggering Event shall have occurred. For all purposes of and under this Agreement, a "Triggering Event" shall be deemed to have occurred if, prior to the Effective Time, any of the following shall have occurred: (A) the Company shall have breached or violated (or be deemed, pursuant to the terms thereof, to have breached or violated) the provisions of Section 6.1 or Section 6.2 in any material respect (without regard to whether such breach or violation results in an Acquisition Proposal); (B) the Company Board or any committee thereof shall have for any reason effected a Company Board Recommendation Change; (C) the Company shall have failed to include the Company Board Recommendation in the Proxy Statement; (D) the Company Board or any committee thereof shall have for any reason approved, or recommended that shareholders of the Company approve, any Acquisition Proposal or Acquisition Transaction (whether or not a Superior Proposal); (E) the Company shall have entered into a letter of intent, memorandum of understanding or Contract (other than a confidentiality agreement contemplated by Section 6.1(b)) accepting or agreeing to discuss or negotiate any Acquisition Proposal or Acquisition Transaction (whether or not a Superior Proposal); or (F) following the date any bona fide Acquisition Proposal is first publicly announced, the Company Board shall have failed to issue a press release that unconditionally reaffirms the Company Board Recommendation within five (5) Business Days after Parent or Merger Sub delivers to the Company a request in writing to do (which request may be made only once with respect to such Acquisition Proposal absent further material changes to such Acquisition Proposal).

8.2 Notice of Termination; Effect of Termination. Any proper termination of this Agreement pursuant to Section 8.1 shall be effective immediately upon the delivery of written notice of the terminating party to the other party or parties hereto, as applicable. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall be of no further force or effect without Liability of any party or parties hereto, as applicable (or any shareholder, director, officer, employee, agent, consultant or representative of such party or parties) to the other party or parties hereto, as applicable, except (a) for the terms of Section 6.9 and Section 6.10, this Section 8.2, and Section 8.3 and Article IX, each of which shall survive the termination of this Agreement and (b) that nothing herein shall relieve any party or parties hereto, as applicable, from Liability for any knowing and intentional breach of, or fraud in connection with, this Agreement. In addition to the foregoing, no termination of this Agreement shall affect the obligations of the parties hereto set forth in the Confidentiality Agreement (as amended pursuant to Section 6.9), all of which obligations shall survive termination of this Agreement in accordance with their terms.

8.3 Fees and Expenses.

(a) General. Except as set forth in Section 6.5 and Section 8.3(b), all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby (including the Merger) shall be paid by the party or parties, as applicable, incurring

such expenses whether or not the Merger is consummated. Expenses incurred under the HSR Act or any comparable pre-merger notification filings, forms and submissions with any foreign Governmental Entity that may be required by the merger notification or control Laws of any applicable foreign jurisdiction shall be shared equally by Parent and the Company.

(b) Company Payments.

(i) In the event that this Agreement is terminated pursuant to Section 8.1(e)(ii), within one Business Day after demand by Parent, the Company shall pay to Parent a fee equal to Fifteen Million Seven Hundred Sixty Thousand Dollars ($15,760,000.00) (the "Termination Fee Amount") by wire transfer of immediately available funds to an account or accounts designated in writing by Parent.

(ii) In the event that this Agreement is terminated pursuant to Section 8.1(d)(ii), prior to and as a condition to the effectiveness of such termination, the Company shall pay to Parent a fee equal to the Termination Fee Amount by wire transfer of immediately available funds to an account or accounts designated in writing by Parent.

(iii) The Company shall pay to Parent a fee equal to the Termination Fee Amount (less any amounts previously paid by the Company pursuant to Section 8.3(b)(iv)), by wire transfer of immediately available funds to an account or accounts designated in writing by Parent, within one Business Day after demand by Parent, in the event that (A)(1) this Agreement is terminated pursuant to Section 8.1(b)(i) or Section 8.1(c) or (2) this Agreement is terminated pursuant to Section 8.1(e)(i), (B) following the execution and delivery of this Agreement and prior to such termination of this Agreement (in the case of any termination referred to in clause (A)(1) above) or prior to the breach or inaccuracy that forms the basis for the termination of this Agreement (in the case of any termination referred to in clause (A)(2) above), an Acquisition Proposal shall have been publicly announced or shall have become publicly known, or shall have been communicated or otherwise made known to the Company, and (C) within twelve (12) months following such termination of this Agreement, either an Acquisition Transaction (whether or not the Acquisition Transaction referenced in the preceding clause (B)) is consummated or the Company enters into a definitive agreement with respect to an Acquisition Transaction (whether or not the Acquisition Transaction referenced in the preceding clause (B)) (for purposes of this Section 8.3(b)(iii), the references to "15%" in the definition of "Acquisition Transaction" shall be deemed to be references to "50%."

(iv) In the event that this Agreement is terminated pursuant to Section 8.1(b)(i), or by Parent pursuant to Section 8.1(e)(i), the Company shall cause to be paid to Parent, in cash, by wire transfer of immediately available funds to an account designated by Parent, within one (1) Business Day thereafter, up to an aggregate amount of $4.0 million of all reasonable and documented out of pocket expenses of Parent and its Affiliates incurred on or after January 1, 2014, including reasonable and documented fees and expenses of financial advisors, outside legal counsel, accountants, experts, consultants and other service providers, incurred by Parent and its Affiliates or on their respective behalf in connection with

or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the Voting Agreements and the transactions contemplated hereby and thereby.

(c) Enforcement. The Company acknowledges and hereby agrees that the provisions of Section 8.3(b) are an integral part of the transactions contemplated by this Agreement (including the Merger), and that, without such provisions, Parent would not have entered into this Agreement. Accordingly, if the Company shall fail to pay in a timely manner the amounts due pursuant to Section 8.3(b), and, in order to obtain such payment, Parent makes a claim that results in a judgment against the Company, the Company shall pay to Parent its reasonable costs and expenses (including its reasonable attorneys' fees and expenses) incurred in connection with such suit, together with interest on the amounts set forth in Section 8.3(b) at the prime rate of Citibank N.A. in effect on the date such payment was required to be made. Payment of the fees described in Section 8.3(b)) shall not be in lieu of, or replacement or substitution for, damages incurred in the event of any breach of this Agreement.

8.4 Amendment. Subject to applicable Law and subject to the other provisions of this Agreement (including Section 1.3(c)), this Agreement may be amended by the parties hereto at any time by execution of an instrument in writing signed on behalf of each of Parent, Merger Sub and the Company; *provided, however*, that in the event that this Agreement has been approved by shareholders of the Company in accordance with California Law, no amendment shall be made to this Agreement that requires the approval of such shareholders of the Company without such approval.

8.5 Extension; Waiver. At any time and from time to time prior to the Effective Time, any party or parties hereto may, to the extent legally allowed and except as otherwise set forth herein, (a) extend the time for the performance of any of the obligations or other acts of the other party or parties hereto, as applicable, (b) waive any inaccuracies in the representations and warranties made to such party or parties hereto contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions for the benefit of such party or parties hereto contained herein. Any agreement on the part of a party or parties hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party or parties, as applicable. Any delay in exercising any right under this Agreement shall not constitute a waiver of such right.

ARTICLE IX
GENERAL PROVISIONS

9.1 Survival of Representations, Warranties and Covenants. The representations, warranties and covenants of the Company, Parent and Merger Sub contained in this Agreement shall terminate at the Effective Time, and only the covenants that by their terms survive the Effective Time shall so survive the Effective Time.

9.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or sent

via telecopy (receipt confirmed) to the parties at the following addresses or telecopy numbers (or at such other address or telecopy numbers for a party as shall be specified by like notice):

(a) if to Parent or Merger Sub, to:

Microchip Technology Incorporated
2355 W. Chandler Blvd.
Chandler, AZ 85224
Attention: Kim van Herk
Vice President, General Counsel and Corporate Secretary
Telecopy No: (480) 792-4112

with copies (which shall not constitute notice) to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, TX 78746
Attention: J. Robert Suffoletta, Jr.
Telecopy No.: (512) 338-5499

and copies (which shall not constitute notice) to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
One Market Street
Spear Tower, Suite 3300
San Francisco, CA 94105
Attention: Robert T. Ishii and Denny Kwon

Telecopy No.: (415) 947-2099

(b) if to the Company, to:

Supertex, Inc.
1235 Bordeaux Drive
Sunnyvale, CA 94089
Attention: Henry C. Pao, CEO
Telecopy No.: (408) 222-4869

with copies (which shall not constitute notice) to:

Pillsbury Winthrop Shaw Pittman LLP
2550 Hanover Street
Palo Alto, CA 94304-1115

Attention: Steve Wurzburg and Tom Chaffin
Telecopy No.: (866) 741-1919 and (650) 233-4545

9.3 Assignment. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other parties. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

9.4 Entire Agreement. This Agreement and the documents and instruments and other agreements among the parties hereto as contemplated by or referred to herein, including the Company Disclosure Letter, constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof; *provided, however*, the Confidentiality Agreement (as amended pursuant to Section 6.9) shall not be superseded, shall survive any termination of this Agreement and shall continue in full force and effect until the earlier to occur of (a) the Effective Time and (b) the date on which the Confidentiality Agreement is terminated in accordance with its terms.

9.5 Third Party Beneficiaries. Except as set forth in or contemplated by the provisions of Section 6.13, this Agreement is not intended to confer upon any other Person any rights or remedies hereunder.

9.6 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

9.7 Other Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

9.8 Specific Performance. The parties hereto hereby agree that irreparable damage would occur in the event that any provision of this Agreement were not performed in accordance with its specific terms or were otherwise breached, and that money damages or other legal remedies would not be an adequate remedy for any such damages. Accordingly, the parties hereto acknowledge and hereby agree that in the event of any breach or threatened breach by the Company, on the one hand, or Parent and/or Merger Sub, on the other hand, of any of their respective covenants or obligations set forth in this Agreement, the Company, on the one hand, and Parent and Merger Sub, on the other hand, shall be entitled to an injunction or injunctions to prevent or restrain breaches or threatened breaches of this Agreement, by the other (as applicable), and to specifically enforce the terms and provisions of this Agreement

to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of the other under this Agreement. The Company, on the one hand, and Parent and Merger Sub, on the other hand hereby agree not to raise any objections to the availability of the equitable remedy of specific performance to prevent or restrain breaches or threatened breaches of this Agreement by such party (or parties), and to specifically enforce the terms and provisions of this Agreement to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of such party (or parties) under this Agreement.

9.9 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, regardless of the Laws that might otherwise govern under applicable principles of conflicts of law thereof, except to the extent that provisions of California Law are mandatorily applicable to the Merger.

9.10 Consent to Jurisdiction. Each of the parties hereto (a) irrevocably consents to the service of the summons and complaint and any other process in any action or proceeding relating to the transactions contemplated by this Agreement, for and on behalf of itself or any of its properties or assets, in accordance with Section 9.2 or in such other manner as may be permitted by applicable Law, and nothing in this Section 9.10 shall affect the right of any party to serve legal process in any other manner permitted by applicable Law; (b) irrevocably and unconditionally consents and submits itself and its properties and assets in any action or proceeding to the exclusive jurisdiction of the Court of Chancery of the State of Delaware (or, only if the Court of Chancery of the State of Delaware declines to accept jurisdiction over a particular matter, any federal court within the State of Delaware) in the event any dispute or controversy arises out of this Agreement or the transactions contemplated hereby (including the Merger), or for recognition and enforcement of any judgment in respect thereof; (c) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court; (d) agrees that any actions or proceedings arising in connection with this Agreement or the transactions contemplated hereby (including the Merger) shall be brought, tried and determined only in the Court of Chancery of the State of Delaware (or, only if the Court of Chancery of the State of Delaware declines to accept jurisdiction over a particular matter, any federal court within the State of Delaware); (e) waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same; and (f) agrees that it will not bring any action relating to this Agreement or the transactions contemplated hereby (including the Merger) in any court other than the aforesaid courts. Each of Parent, Merger Sub and the Company agrees that a final judgment in any action or proceeding in such courts as provided above shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Law.

9.11 WAIVER OF JURY TRIAL. EACH OF PARENT, COMPANY AND MERGER SUB HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF PARENT, COMPANY OR MERGER SUB IN THE

NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF.

9.12 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by their respective duly authorized officers to be effective as of the date first above written.

MICROCHIP TECHNOLOGY INC.

By: /s/: Steve Sanghi

Name: Steve Sanghi

Title: President and Chief Executive Officer

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by their respective duly authorized officers to be effective as of the date first above written.

ORCHID ACQUISTION CORPORATION

By: /s/ Ganesh Moorthy

Name: Ganesh Moorthy

Title: Chief Executive Officer

[AGREEMENT AND PLAN OF MERGER]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by their respective duly authorized officers to be effective as of the date first above written.

SUPERTEX INC.

By: /s/ Henry C. Pao

Name: Henry C. Pao

Title: President & CEO

[AGREEMENT AND PLAN OF MERGER]

Annex A

Form of Voting Agreement

EXHIBIT 10.17
MICROCHIP TECHNOLOGY INCORPORATED
INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN
AS AMENDED THROUGH MAY 19, 2014

I. PURPOSE

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

II. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

III. ADMINISTRATION

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

IV. PURCHASE PERIODS

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

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

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

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

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

V. ELIGIBILITY AND PARTICIPATION

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

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

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

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

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

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

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

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

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

VI. STOCK SUBJECT TO PLAN

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

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

VII. PURCHASE RIGHTS

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

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

Valuation. The fair market value per share of Common Stock on any relevant date under the Plan shall be the closing selling price per share of Common Stock on that date, as officially quoted on the

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

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

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

Number of Purchasable Shares.

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

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

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

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

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

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

Subsidiary or held for the purchase of shares at the end of such purchase period. If no such election is made at the time the termination notice is filed, then the Participant's payroll deductions shall be refunded as soon as possible after the termination date of his/her purchase right.

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

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

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

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

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

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

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

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

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

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

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

(ii) a sale of all or substantially all of Microchip's assets in liquidation or dissolution of Microchip, or

(iii) a reverse merger in which Microchip is the surviving corporation but in which more than fifty percent (50%) of Microchip's outstanding voting stock is transferred to person or persons different from those who held the stock immediately prior to such merger, then all outstanding purchase rights under the Plan shall automatically be exercised immediately prior to the effective date of such Corporate Transaction by applying the payroll deductions of each Participant for the purchase period in which such Corporate Transaction occurs to the purchase of whole shares of Common Stock at eighty-five percent (85%) of the lower of (i) the fair market value of the Common Stock on the start date of the purchase period in which such Corporate Transaction occurs or (ii) the fair market value of the Common Stock immediately prior to the effective date of such Corporate Transaction. Payroll deductions shall be converted from the currency in which paid by the Foreign Subsidiary into U.S. Dollars on the basis of the exchange rate in effect on the purchase date, and the applicable share limitation of Article VII shall continue to apply to each such purchase. Should Microchip sell or otherwise dispose of its ownership interest in any Foreign Subsidiary participating in the Plan, whether through merger or sale of all or substantially all of the assets or outstanding capital stock of that Foreign Subsidiary, then a similar exercise of outstanding purchase rights shall be effected immediately prior to the effective date of such disposition, but only to the extent those purchase rights are attributable to the employees of such Foreign Subsidiary.

Microchip shall use its best efforts to provide at least ten (10) days advance written notice of the occurrence of any such Corporate Transaction, and the Participants shall, following the receipt of such

notice, have the right to terminate their outstanding purchase rights in accordance with the applicable provisions of this Article VII.

VIII. AMENDMENT AND TERMINATION

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

IX. GENERAL PROVISIONS

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

B. The Plan shall terminate upon the earlier of (i) the last U.S. business day in November 2014 or (ii) the date on which all shares available for issuance under the Plan shall have been sold pursuant to purchase rights exercised under the Plan.

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

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

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

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

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

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

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

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

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

SCHEDULE A

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

Australia - Microchip Technology Australia PTY Ltd.

Australia - Hi-Tech Software PTY Ltd

Austria - Microchip Technology Austria GmbH

Belgium – Eqcologic NV

Canada - Microchip Technology Canada Inc.

China - SST China Ltd.

China - Microchip Technology Trading (Shanghai) Co., Ltd.

Denmark - Microchip Technology Nordic ApS

France - Microchip Technology Sarl

Germany – K2L GmbH & Co. KG

Germany - Microchip Technology GmbH

Germany – Microchip Technology Germany II GmbH & Co. KG

Germany – Microchip Technology Germany GmbH

Hong Kong - Microchip Technology Hong Kong Ltd.

Hong Kong – Supertex, Limited

Hungary - Microchip Technology Hungary Kft.

India - Microchip Technology (India) Private Limited

Ireland - Microchip Technology Ireland Limited

Israel – Microchip Technology Israel Ltd

Italy - Microchip Technology SRL

Japan - Microchip Technology Japan K.K.

Korea - Microchip Technology Korea Ltd.

Malaysia - Arizona Microchip Technology (Malaysia) Sdn Bhd

Mexico - Microchip Technology Mexico, S.DE R.L. DE C.V.

Netherlands - Microchip Technology (Netherlands) Europe B.V.

Philippines - MTI Advanced Test Development Corporation

Philippines – Microchip Technology (Philippines) Corporation

Poland - Microchip Technology Sp. z o.o.

Romania - Microchip Technology SRL

Singapore - Microchip Technology Singapore Pte Ltd.

Singapore – Wireless Sound Solutions Pte Ltd.

Spain - Microchip Technology S.L.

Sweden - Microchip Technology Sweden AB

Sweden – SMSC Sweden

Switzerland - Microchip Technology Switzerland S.A.

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

Taiwan - SST Taiwan Ltd. – HsinChu Office

Thailand - Arizona Microchip Technology (Thailand) Ltd.

United Kingdom - Microchip Limited

MICROCHIP TECHNOLOGY INCORPORATED

INTERNATIONAL STOCK PURCHASE AGREEMENT

1. I hereby elect to participate in the Microchip Technology Incorporated (the "Company") International Employee Stock Purchase Plan (the "IESPP") until such time as I elect to withdraw from the IESPP either by written notification to the Plan Administrator, my employment status changes, or termination of the IESPP by the Company, and I hereby subscribe to purchase shares of common stock of Microchip Technology Incorporated ("Common Stock") in accordance with the provisions of this International Stock Purchase Agreement, including any appendix for my country (the "Appendix" and together with the International Stock Purchase Agreement, the "Agreement") and the IESPP. I hereby authorize payroll deductions from each of my paychecks during the time in which I participate in the IESPP in the 1% multiple of my Earnings (not to exceed a maximum of 10%) specified in my attached Enrollment Form. Capitalized terms not defined herein shall have the meaning ascribed to them in the IESPP.

2. I understand that the IESPP has a six-month offering period. IESPP offering periods begin on the first business day of June and December of each year, and my participation will automatically remain in effect from one offering period to the next offering period in accordance with my payroll deduction authorization, unless I withdraw from the IESPP or change the rate of my payroll deduction or my employment status changes.

3. I understand that my payroll deductions will be accumulated for the purchase of shares of Common Stock on the last business day of each offering period of participation. The purchase price per share will be equal to 85% of the lower of (i) the fair market value per share of Common Stock on the start date of the six-month offering period or (ii) the fair market value per share on the purchase date on the last business day of the offering period.

4. I understand that I can withdraw from the IESPP at any time prior to the last 5 business days of an offering period and elect either to have the Company refund all my payroll deductions for that period or to have such payroll deductions applied to the purchase of Common Stock at the end of such period. However, I may not rejoin that particular six-month offering period at any later date. Upon my termination of employment or change to ineligible employee status, my participation in the IESPP will immediately cease and all my payroll deductions for the six-month period in which such termination or change occurs will be refunded. Should I die or become disabled while an IESPP participant, payroll deductions will automatically cease on my behalf, and I or my estate may, at any time prior to the last 5 business days of the offering period in which I die or become disabled, elect to have my payroll deductions for that period applied to the purchase of Common Stock at the end of that period; otherwise, those deductions will be refunded. I further understand that I may reduce my rate of my payroll deductions on one occasion during a six-month offering period, but that I may only increase my rate of payroll deductions at the beginning of a new six-month offering period.

5. I understand that my shares will be placed in a brokerage account at the end of each six-month offering period of participation. The account will be opened in the Participant's name.

6. I understand that the Company has the right, exercisable in its sole discretion, to amend or terminate the IESPP at any time, with such amendment or termination to become effective immediately following the purchase of shares at the end of any current six-month offering period of participation. Should the Company elect to terminate the IESPP, I will have no further rights to purchase shares of Common Stock pursuant to this Agreement.

7. I understand that the IESPP sets forth restrictions (i) limiting the maximum number of shares which I may purchase per the six-month offering period of participation and (ii) prohibiting me from purchasing more than $25,000 worth of Common Stock per calendar year.

8. Tax Obligations. Regardless of any action the Company or my employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to my participation in the IESPP and legally applicable to me ("Tax-Related Items"), I acknowledge that the ultimate liability for all Tax-Related Items is and remains my responsibility and may exceed the amount actually withheld by the Company or my Employer. I further acknowledge that the Company and/or my Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of my participation in the IESPP, including, but not limited to, the grant of the purchase right, the purchase of Common Stock under the IESPP, the subsequent sale of shares of Stock acquired under the IESPP and the receipt of any dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the purchase right to reduce or eliminate my liability for Tax-Related Items or achieve any particular tax result. Further, if I have become subject to tax in more than one jurisdiction between the date my participation began and the date of any relevant taxable event, I acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, I will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, I authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from my wages or other cash compensation paid to me by the Company and/or the Employer; or

(b) withholding from proceeds of the sale of shares of Common Stock acquired at purchase either through a voluntary sale or through a mandatory sale arranged by the Company (on my behalf pursuant to this authorization); or

(c) withholding in shares of Common Stock to be issued at purchase.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in shares of Common Stock, for tax purposes, I will be deemed to have been issued the full number of shares of Common Stock subject to the exercised purchase right, notwithstanding that a number of shares of Common Stock are held back solely for the purpose of paying the Tax-Related Items due as a result of my participation in the IESPP.

Finally, I shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of my participation in the IESPP that cannot be satisfied by the means previously described. The Company may refuse to purchase shares of Common Stock on my behalf under the IESPP and refuse to deliver the shares of Common Stock if I fail to comply with my obligations in connection with the Tax-Related Items.

9. Nature of Grant. By participating in the IESPP, I acknowledge, understand and agree that:

(a) the IESPP is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;

(b) the grant of the purchase rights is voluntary and occasional and does not create any contractual or other right to receive future grants of purchase rights, or benefits in lieu of purchase rights, even if purchase rights have been granted repeatedly in the past;

(c) all decisions with respect to future grants of purchase rights, if any, will be at the sole discretion of the Company;

(d) my participation in the IESPP shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate my employment relationship at any time where not otherwise expressly prohibited by applicable law;

(e) I am voluntarily participating in the IESPP;

(f) the purchase rights and the shares of Common Stock subject to the purchase rights are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which is outside the scope of my employment contract, if any;

(g) the purchase rights and the shares of Common Stock subject to the purchase rights are not intended to replace any pension rights or compensation;

(h) the purchase rights and the shares of Common Stock subject to the purchase rights are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Foreign Subsidiary;

(i) the grant of purchase rights and my participation in the IESPP will not be interpreted to form an employment contract or relationship with the Company or any subsidiary or affiliate of the Company;

(j) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(k) in consideration of the grant of the purchase rights under the IESPP, no claim or entitlement to compensation or damages shall arise from forfeiture of the purchase rights under the IESPP resulting from termination

of my employment with the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the purchase rights under the IESPP to which I am otherwise not entitled, I irrevocably agree never to institute any claim against the Company or any Foreign Subsidiary, waive the ability, if any, to bring any such claim regarding the forfeiture of purchase rights under the IESPP and release the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the IESPP, I shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims; and

(l) in the event of termination of my employment (whether or not in breach of local labor laws), my right to participate in and to purchase shares of Common Stock under the IESPP, if any, will terminate effective as of the date that I am no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Plan Administrator shall have the exclusive discretion to determine when I am no longer actively employed for purposes of my participation in the IESPP.

10. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding my participation in the IESPP, or my acquisition or sale of the underlying shares of Common Stock. I am hereby advised to consult with my own personal tax, legal and financial advisors regarding my participation in the IESPP before taking any action related to the IESPP.

11. ***Data Privacy. By participating in the IESPP, I explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of my personal data as described in this Agreement by and among, as applicable, the Employer, the Company and any Foreign Subsidiary for the exclusive purpose of implementing, administering and managing my participation in the IESPP. I understand that the Company and the Employer may hold certain personal information about me, including, but not limited to, my name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Common Stock or directorships held in the Company, details of all purchase rights or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in my favor, for the exclusive purpose of implementing, administering and managing the IESPP ("Data"). I understand that Data will be transferred to the broker, or such other stock plan service provider as may be selected by the Company, which is assisting the Company with the implementation, administration and management of the IESPP. I understand that except where expressly prohibited by local law, the recipients of Data may be located in my country or elsewhere (e.g., the United States), and that the recipients' country may have different data privacy laws and protections than my country*. **I understand that my employer has put in place procedures intended to preserve the security of the Data.** ***I authorize the Company, the Employer and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the IESPP to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing my participation in the IESPP.***

I understand that I may request a list with the names and addresses of any potential recipients of the Data by contacting my local human resources representative. I understand that Data will be held only as long as is necessary to implement, administer and manage my participation in the IESPP. I understand that I may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Company's human resources department. I understand, however, that refusing or withdrawing my consent may affect my ability to participate in the IESPP. For more information on the consequences of my refusal to consent or withdrawal of consent, I understand that I may contact the Company's human resources department.

12. Choice of Law and Venue. The grant of purchase rights under the IESPP and the provisions of this Agreement will be construed and administered in accordance with and governed by the laws of the State of Arizona, United States of America, without giving effect to such state's conflict of laws principles.

For purposes of litigating any dispute that arises under this grant or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of Arizona and agree that such litigation shall be conducted in the courts of Maricopa County, Arizona, or the federal courts for the United States for the District of Arizona, where this grant is made and/or to be performed.

13. Language. If I have received this Agreement or any other document related to the IESPP translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.

14. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the IESPP by electronic means. I hereby consent to receive such documents by electronic delivery and agree to participate in the IESPP through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

15. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. Appendix. Notwithstanding any provisions in this Agreement, the purchase rights granted under the IESPP shall be subject to any special terms and conditions set forth in the Appendix. Moreover, if I relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to me, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the IESPP. The Appendix constitutes part of this Agreement.

17. Imposition of Other Requirements. The Company reserves the right to impose other requirements on my participation in the IESPP, on the purchase right and on any shares of Common Stock acquired under the IESPP, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the IESPP, and to require me to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

I acknowledge that I have received a copy of the official IESPP Prospectus summarizing the operation of the IESPP. I have read this Agreement (including the Appendix) and the Prospectus and hereby agree to be bound by the terms of this Agreement, the Enrollment Form and the IESPP. The effectiveness of this Agreement is dependent upon my eligibility to participate in the IESPP.

Print Name	Signature
Badge Number	Date of Signature

Start Date of My Participation: _____

APPENDIX TO

MICROCHIP TECHNOLOGY INCORPORATED

INTERNATIONAL STOCK PURCHASE AGREEMENT

This Appendix includes additional terms and conditions that govern the purchase rights granted to me under the IESPP if I reside in one of the countries listed below. All capitalized terms used, but not defined herein shall have the meanings given to such terms in the IESPP and/or the Agreement.

If the Participant is a citizen or resident of a country other than the one in which she/he is currently working or transfers employment after he/she enrolls in the IESPP, the Company shall, in its discretion, determine to what extent the terms and conditions contained herein shall be applicable to the Participant.

AUSTRALIA

No country-specific provisions apply.

AUSTRIA

Interest Waiver. By enrolling in the IESPP and accepting the terms of the Agreement and Enrollment Form, I unambiguously consent to waive my right to any interest with respect to payroll deductions credited to me during an offering period.

BELGIUM

No country-specific provisions apply.

CANADA

Termination of Employment. The following provision replaces section 9(I) of the Agreement:

In the event of termination of my employment, my right to purchase shares under the IESPP, if any, will terminate effective as of the date that is the earlier of (i) the date on which I receive a notice of termination of employment from the Company or the Employer, or (ii) the date on which I am no longer employed, regardless of any notice period or period of pay in lieu of such notice required under local law; the Plan Administrator shall have the exclusive discretion to determine when I am no longer employed for purposes of the IESPP.

The following terms and conditions will apply to residents of Quebec:

Consent to Receive Information in English. The parties acknowledge that it is their express wish that this Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.

Data Privacy. The following supplements Section 11 of the Agreement:

I hereby authorize the Company and the Company's representative to discuss with and obtain all relevant information from all personnel (professional or not) involved in the administration and operation of the IESPP. I further authorize the Company and the Employer to disclose and discuss with their advisors my participation in the IESPP. I also authorize the Company and the Employer to record such information and keep it in my employee file.

CHINA

Participation by Employees who reside in the People's Republic of China ("PRC") but are not PRC Nationals.

The following provision modifies Section V(D) of the IESPP, Section 1 of the Enrollment Form and Sections 1-3 of this Agreement:

I understand that I am not able to participate in the IESPP by means of payroll deductions taken from my Earnings in RMB each pay period due to certain exchange control laws and regulations in the PRC and other legal restrictions, and therefore, to participate in the IESPP, I agree that if I wish to participate in the IESPP, I agree to contribute towards the purchase of shares by a means other than payroll deductions. At the direction of the Company, I agree to contribute to the purchase of shares in the IESPP through contributions in USD, or contributions converted by me from RMB to USD, in an amount equal to the percentage of my Earnings (from 1% to 10%) specified in my attached Enrollment Form for the particular offering period. I understand that such contribution towards the purchase of shares in the IESPP shall be made by me to the Company no later than five (5) business days before the end of each six-month offering period, with each IESPP offering period beginning on the first business day of June and December. I further understand and agree that such process with respect to contributions towards the purchase of shares in the IESPP shall remain in effect so long as I continue to reside in the PRC and participate in the IESPP and that the other terms and conditions of this Agreement shall apply to me, apart from the contribution in the form of payroll deductions.

Participation by Employees who reside in the PRC and are PRC Nationals.

Deposits in Account. The following provisions supplement Section 5 of this Agreement:

Due to exchange control laws and regulations in the PRC, I understand and agree that any shares of Common Stock acquired at exercise of the purchase rights under the IESPP will be deposited in an account established for me by the Company (the "Account") with E*Trade Financial or any successor broker designated by Company, in its sole discretion (the "Designated Broker"). I understand that I must maintain such shares of Common Stock issued to me under the IESPP in the Account and must not transfer the shares of Common Stock to any person, broker or other account with the Designated Broker or to a brokerage account outside of the Designated Broker.

In addition, if any dividends related to shares of Common Stock acquired under the IESPP are issued, I understand that, such dividends may, at the Company's sole discretion, be deposited into an Account with the Designated Broker, or re-invested by Company on my behalf.

Until such time as the shares of Common Stock acquired at exercise of the purchase rights are sold, I agree to maintain the shares of Common Stock issued to me under the IESPP in the Account and will not transfer the shares of Common Stock to another account with the Designated Broker or to a brokerage account outside of the Designated Broker.

Sale of Shares. The following provision supplements Section 5 of this Agreement:

I understand and agree that due to exchange control laws and regulations in the PRC, I must repatriate immediately to the PRC any cash proceeds from the sale of the shares of Common Stock acquired under the IESPP. I further understand that, under applicable laws and regulations, such repatriation must be effected through a special foreign exchange account established by the Company or one of its Foreign Subsidiaries, and I consent and agree that the proceeds from the sale of the shares of Common Stock may be transferred to such special account before being delivered to me. Moreover, if the proceeds from the sale of the shares of Common Stock are converted to local currency, I acknowledge that the Company and any Foreign Subsidiary are under no obligation to secure any particular currency conversion rate and may face delays in converting the proceeds to local currency due to exchange control restrictions in the PRC. I agree to bear the risk of any fluctuation in the U.S. dollar/local currency exchange rate between the date I realize U.S. dollar proceeds from my participation in the IESPP and the date that I receive cash proceeds converted to local currency. Finally, I agree to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with exchange control requirements in the PRC.

Forfeiture and Sale upon Termination of Employment**.** The following provisions supplement section 4 of this Agreement:

(a) I understand and agree that I must sell all shares of Common Stock acquired under the IESPP on or before the date of my termination as an Eligible Employee. I hereby authorize Company or the Designated Broker to sell such shares on my behalf without notice to or consent from me if I have not sold all shares of Common Stock so acquired as of the date of termination of service. The sale of shares shall be carried out within a reasonable time of termination of service as determined by Company. The proceeds from such sale, net any Tax-Related Items and

broker's fees, shall be deposited in my bank account in China, or delivered to me in China through such other means determined by Company, in its discretion. I hereby release and hold harmless the Company and any Foreign Subsidiary, employees and agents ("Indemnitees") from any loss that I may incur due to the timing of the sale of shares of Common Stock by Company and acknowledges that the Company and the Employer are under no obligation to arrange for the sale of the shares at any particular price and are not liable for any fluctuations in the trading price of the shares and/or the U.S. dollar exchange rate.

(b If, contrary to the requirements above, I transfer shares of Common Stock into an account to which Company has no visibility, then I agree that I will sell all shares of Common Stock no later than the date of termination of employment and provide written evidence of such sale of shares of Common Stock to the Company within two (2) business days of the date of termination of employment. Such evidence must be in a form acceptable to Company.

(c) I shall defend, hold harmless and indemnify Indemnitees from any and all penalties, damages, and costs that may be incurred by Indemnitees arising out of or in connection with my failure to comply with these obligations and any requirements under local exchange control laws applicable to me.

DENMARK

No country-specific provisions apply.

FRANCE

Payroll Deduction Authorization. I hereby authorize payroll deductions from my Earnings in the percentage authorized in the Enrollment Form (payroll deductions from 1 to 10%) in connection with my participation in the IESPP (payroll deductions may not exceed 10% of Earnings per year).

Autorisation de Prélèvement sur Salaire. J'autorise par la présente des prélèvements salariaux sur ma Rémunération pendant la Période d'Offre conformément au pourcentage autorisé dans l' Accord de Souscription (les prélèvements salariaux ne peuvent pas dépasser 10 %).

Language Consent. By accepting the Agreement, I confirm having read and understood the documents relating to this purchase right grant (the IESPP, the Agreement and this Appendix) which were provided to me in the English language, with the exception of the payroll authorization above. I accept the terms of those documents accordingly.

Consentement relatif à la Langue utilisée. *En approuvant le présent Formulaire de Participation, vous confirmez que vous avez lu et compris les documents relatifs à cette attribution de droits d'achat d'actions qui vous ont été remis en langue anglais (le IESPP, le Formulaire de Participation ainsi que la présente Annexe), a l'exception de l'autorisation de rélèvement sur salaire ci-dessus. Vous acceptez les conditions afférentes à ces documents en connaissance de cause.*

GERMANY

No country-specific provisions apply.

HONG KONG

Securities Warning. *I understand that the grant of the purchase rights and the issuance of Common Stock upon purchase do not constitute a public offer of securities under Hong Kong law and are available only to employees. The Agreement, IESPP, this Appendix, the Enrollment Form and other incidental communication materials that I may receive have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under applicable securities laws in Hong Kong. Furthermore, none of the documents relating to the IESPP have been reviewed by any regulatory authority in Hong Kong. I understand that I am advised to exercise caution in relation to the offer. If I am in any doubt about any of the contents of the Agreement, IESPP, the Enrollment Form, this Appendix or any other communication materials, I understand that I should obtain independent professional advice.*

HUNGARY

No country-specific provisions apply.

INDIA

Exchange Control Documentation. I understand that I must repatriate the sale proceeds upon the sale of shares of Common Stock acquired under the IESPP to India and convert the proceeds into local currency within 90 days of receipt. I will receive a foreign inward remittance certificate ("FIRC") from the bank where the foreign currency is deposited. I understand that I should retain the FIRC as evidence of the repatriation of funds in the event that the Reserve Bank of India, the Employer or the Company requests proof of repatriation.

IRELAND

No country-specific provisions apply.

ISRAEL

Tax Ruling. The Company has an Agreed Advanced Tax Ruling (the "Tax Ruling") from the Israel Tax Authority ("ITA") with respect to the IESPP offered to Israeli resident employees of Microchip Technology Israel Ltd. A copy of the Tax Ruling is attached to this Appendix as Exhibit A.

If I am an Israeli resident employee of Microchip Technology Israel Ltd. and have not already executed a declaration to agree to the terms of the Tax Ruling, I must print and execute the declaration attached to this Appendix for Israel (Exhibit B), and submit the declaration to: [insert name], [insert position], Microchip Technology Incorporated [insert email address], by the date that is 45 days from the beginning of the applicable offering period (in Israel, referred to as the "Savings Period").

If I do not submit the attached declaration by the date that is 45 days from the beginning of the applicable offering period (*i.e.*, the Savings Period), my participation in the IESPP may be automatically withdrawn, subject to the Company's discretion for unforeseen circumstances, and any accumulated contributions will be returned to me as soon as practicable.

I understand that I must also acknowledge acceptance of the IESPP Enrollment Form, the Agreement, and this Appendix. The execution and submission of the declaration regarding the Tax Ruling described herein is a separate process in addition to enrollment in the IESPP, which is unique to Israel.

EXHIBIT A

Department of Employee Options

February 4, 2014

Epstein Rosenblum Maoz (ERM) Law Offices
Attn: Yair Benjamini

Re: Agreed Tax Ruling- Calculation of Tax re the Benefit to Employees under the Employee Stock Purchase Plan - Microchip Technologies Israel Ltd.
(With reference to your request of December 10, 2013)

1 **The facts as presented by you:**

1.1 Microchip Technologies Israel Ltd., company no. 514944107, withholding file 923692313 (hereinafter: the "**Company**") is an Israeli resident private company.

1.2 The Company is a subsidiary of Microchip Technology, Inc. (hereinafter: the "**Parent**"), a corporation whose shares are traded on the NASDAQ. The Parent develops and manufactures semiconductor products for a wide range of uses.

1.3 The Parent approved the International Employee Stock Purchase Plan (hereinafter: the "**ESPP**"). Among others, employees of the Company who are not "controlling shareholders" as defined in section 102(a) of the Income Tax Ordinance (hereinafter: the "**Ordinance**") are eligible to participate in the ESPP.

1.4 The main provisions of the ESPP are as follows:

1.4.1 The ESPP provides for consecutive savings periods (hereinafter: the "**Savings Periods**"), during which eligible employees can participate in the ESPP and be granted the right to purchase shares in the Parent (hereinafter: the "**Shares**"). The last day of each Savings Period is referred to as the purchase date (hereinafter: the "**Purchase Date**"). The six month Saving Periods begin on the first trading day after June 1st and December 1st of each year. The first Savings Period for Israeli employees began on December 1, 2013.

1.4.2 Employees of the Company are eligible to purchase ordinary shares of the Parent at a 15% discount of the lower of:

a. The market price of the Shares on the first date of the Savings Period; or

b. The market price of the Shares on the last date of the Savings Period (hereinafter: the "**Exercise Price**").

1.4.3 For the first Savings Period, the employees participating in the ESPP received an automatic right to purchase Shares via withholding from each employee's salary (hereinafter: the "**Savings Amount**"). The employee is allowed to pay an amount of between 1% and 10% of his net salary after withholding of taxes during the Savings Period, and that Savings Amount will be used solely for the purchase of Shares and will not exceed 10% of the employee's monthly base salary. The employee may elect to decrease the percentage of cash

compensation that he authorizes for use during the Savings Period. Neither the Company nor the Parent will pay any interest on the Savings Amount.

1.4.4 Each employee may terminate his participation in the ESPP at any time in the manner proscribed by the Parent. Should an employee cancel his participation prior to the end of the Savings Period or at any later time, the entire sum of the accrued salary deduction will be returned as soon as possible to the employee, without interest. The employee is not permitted to withdraw less than the entire salary deduction amount that has accrued to him. In the event that the employee decides to terminate his participation in the ESPP, the employee is permitted to re-enroll during any subsequent Savings Period via submission of a new enrollment form to the Company prior to the relevant Purchase Date. The Company and the Parent will not pay interest on the Savings Amount.

1.4.5 The ESPP contains quantitative limitations regarding the number of Shares that each employee is entitled to purchase. In any event, in any calendar year, an employee may not purchase more than the number of Shares equal to $25,000 divided by the market value of the Shares on the relevant Purchase Date.

1.4.6 Attached as **Appendix A** hereto is the ESPP and its conditions per your submissions.

2 **The Request:**

2.1. The employee's enrollment in the ESPP will not constitute a tax event and will not be subject to tax on that date.

2.2. On the date the options are exercised and the employee purchases the Shares, the employee will be subject to tax for the benefit resulting from the difference between the market value of the Shares at the close of trading on the Purchase Date and the Exercise Price the employee actually paid. The tax rate will be the employee's marginal tax rate according to the tax liability for employee grants under the non-trustee track. The tax will be withheld at the source by the Company.

2.3. On the date of sale of the Shares by the employee, the Parent and/or the Company will not withhold tax at source, and the employee will be taxed according to Section E of the Ordinance.

3. The tax arrangement and its conditions:

Relying on the facts provided by you and detailed in section 1 above, the Income Tax Authority approves the tax arrangement relating to the ESPP on compliance with the following conditions:

3.1. This tax arrangement applies to the ESPP, whose first Savings Period commenced on December 1, 2013, and will continue to apply until the termination of the ESPP by the Parent, and for so long as the provisions of the law are not changed, and only if the Company and the employees will act in accordance with the provisions of this tax arrangement.

3.2. Each term in this tax arrangement shall have the meaning ascribed to it in Part E-1 of the Ordinance, unless otherwise expressly provided.

3.3. The provisions of section 102(c)(2) of the Ordinance and the Income Tax Rules (Tax Benefits for Employee Share Allotments), 2003 (hereinafter: the "**Rules**") will apply to the grant of the ESPP to the employees of the Company.

3.4. The Company will not take any tax deductions related to the ESPP, regardless of whether the employees of the Company participate in the tax agreement.

3.5. Notwithstanding section 3.2 above, the end of each Purchase Period will be deemed a "realization" for the purpose of section 102(c)(2) of the Ordinance (hereinafter: the "**Realization Date**"), and the following provisions will apply:

3.5.1 All Shares that an employee received on the Realization Date will be deemed sold according to the closing price of the Shares on the Realization Date (hereinafter: the "**Share Price**").

3.5.2 The employee will be liable for employment income according to section 2(2) of the Ordinance for the difference between the Share Price and the Exercise Price that the employee paid on the Realization Date, multiplied by the total Shares purchased by the broker in his name (hereinafter: the "**Value of the Benefit**").

3.5.3 On the Realization Date, the Company will withhold tax for the Value of the Benefit and will transfer the relevant withholding to the Assessing Officer, as required by section 9(e) of the Rules.

3.5.4 Employees will be deemed residents of Israel until the date on which the Shares are actually sold, in respect of the income from the ESPP that is the subject of this tax agreement. The aforesaid will not apply to Savings Periods after an employee is no longer a resident of Israel, including if the employee has secured approval from the ITA on the termination of his Israeli residency or if the Company secures a tax agreement with respect to severing Israeli residency of its employees.

3.5.5 On the actual date of sale the Shares, Part E of the Ordinance will apply to the employee, and the price of the Shares and the end of the Purchase Period (as stated in section 3.4.1 above) will be deemed the original price of the Shares on the Purchase Date.

3.5.6 For the avoidance of doubt, it is clarified that the reporting and tax payment obligations for the income described in section 3.5.5 above, on the actual date of sale, are the sole obligations of the employees.

3.6. This tax agreement is conditioned on compliance with the law and this agreement. This agreement is given on reliance on the representations that you made to us. If it is later discovered that the details you provided in the context of the request are not accurate, or substantively incomplete, and/or one of the conditions is not complied with, the following consequences will result: the employees that purchase Shares on the Purchase Date will be liable for income tax as employment income under section 2(2) of the Ordinance on the actual date of sale of the Shares, at the highest price of the Shares from the beginning of the Savings Period until the sale of the Shares to an unrelated third party, as defined by section 88 of the Ordinance, including interest and linkage differentials from the grant date of the Shares.

3.7. This tax agreement does not amount to an assessment or approval of the facts as presented by you. The facts as presented by you shall be examined by the Assessing Officer via his examination of the Company and/or the employees participating in the ESPP, as applicable.

3.8. This tax agreement is valid from the Offering Period beginning on December 1, 2013 and through December 31, 2018. Following that period, you may request an extension from the ITA (if any).

3.9. Within 60 days of the date hereof, and within 60 days from a new employee's enrollment in the ESPP, as applicable, the Company and the employees participating in the ESPP will submit a declaration in the form provided in **Exhibit B** to this tax agreement. Section 3.6 above will apply to an employee who does not sign the declaration. The Company and the employees' declarations will be valid with respect to the ESPP for all Offering Periods that are the subject of this tax agreement, and accordingly for the period stated in section 3.1 above. The Company will submit a list of the employees that did not participate in this tax agreement to the Assessing Officer within 60 days of the receipt of this tax agreement or within 60 days of the beginning of each Offering Period, as applicable.

Yours truly,

Eran Dvir, CPA (jurist)
Superior (Professional Division)

Copies:
Mr. Aaron Elijahu, CPA - Senior VP for Professional Issues.
Ms. Pazit Klieman, CPA - Kfar Saba Assessing Officer
Mr. Raz Itzkovitch, CPA (Jurist) - Department Manager - Employee Options
Mr. Rafi Tawina, Adv. - Senior Department Manager (Employee Options), Legal Department

EXHIBIT B

Re: Agreed Tax Ruling- Microchip Technology Israel Ltd.

Pursuant to section 3.9 of the Tax Ruling dated February 4, 2014, "Tax Ruling by Agreement - Calculation of Tax re the Benefit to Employees of Microchip Technology Israel Ltd." (the "Tax Ruling"), I, the undersigned employee, declare that I understand the Tax Ruling, will act in accordance with it, and will not request to change it and/or annul it, and/or replace it, and/or will not request additional tax benefits other than those provided in this Tax Ruling.

In addition, I understand that should I sell the shares of Common Stock (as defined under the IESPP) purchased under the IESPP more than three (3) days after I purchase such shares, I will be required, by Israeli law, to report on all profits and/or losses from such sales on my Annual Return, to report to the Tax Authorities according to section 91(d), and to make advanced tax payments as required by law.

Additionally, I understand that I will be required to file an Annual Return to the Assessing Officer even if I do not currently file an Annual Return.

I also declare that I understand that a failure to file an Annual Return or a failure to pay tax, as required by Israeli law, on any income from sale of shares of Common Stock that I purchased under the IESPP is a criminal offense.

Executed by:

Signature	Date	ID	Employee name

ITALY

Data Privacy Notice. The following provision replaces paragraph 12 of the Agreement:

I hereby explicitly and unambiguously consent to the collection, use, processing and transfer, in electronic or other form, of my personal data as described in this provision of this Appendix by and among, as applicable, the Employer, the Company and any Foreign Subsidiary for the exclusive purpose of implementing, administering, and managing my participation in the IESPP.

I understand that the Employer, the Company and/or any Foreign Subsidiary may hold certain personal information about me, including, without limitation, my name, home address and telephone number, date of birth, social insurance or other identification number, salary, nationality, job title, any shares or directorships held in the Company or a Foreign Subsidiary, details of all purchase rights, or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in my favor, for the exclusive purpose of implementing, managing, and administering the IESPP ("Data").

I also understand that providing the Company with Data is necessary for the performance of the IESPP and that my refusal to provide such Data would make it impossible for the Company to perform its contractual obligations and may affect my ability to participate in the IESPP. The Controller of personal data processing is Microchip Technology Incorporated at 2355 West Chandler Boulevard, Chandler, AZ 85224, U.S.A., and, pursuant to Legislative Decree no. 196/2003, its representative in Italy is Microchip Technology SRL with registered offices at Via Pablo Picasso 41, 20025 Legnano (MI) Italy.

I understand that Data will not be publicized, but it may be transferred to E*Trade Financial (or one of its affiliates) or such other stock plan service provider as may be selected by the Company in the future (any such entity, "Broker"), or other third parties involved in the management and administration of the IESPP. I understand that Data may also be transferred to the independent registered public accounting firm engaged by the Company. I further understands that the Company and/or any Foreign Subsidiary will transfer Data among themselves as necessary for the purpose of implementing, administering, and managing my participation in the IESPP, and that the Company or a Foreign Subsidiary may each further transfer Data to third parties assisting the Company in the implementation, administration, and management of the IESPP, including any requisite transfer of Data to the Broker or other third party with whom I may elect to deposit any shares of Common Stock acquired at vesting of the purchase rights. Such recipients may receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing my participation in the IESPP. I understand that these recipients may be located in or outside the European Economic Area, such as in the United States or elsewhere. Should the Company exercise its discretion in suspending all necessary legal obligations connected with the management and administration of the IESPP, it will delete Data as soon as it has completed all the necessary legal obligations connected with the management and administration of the IESPP.

I understand that Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data is collected and with confidentiality and security provisions, as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.

The processing activity, including communication, the transfer of Data abroad, including outside of the European Economic Area, as herein specified and pursuant to applicable laws and regulations, does not require my consent thereto, as the processing is necessary to performance of contractual obligations related to implementation, administration, and management of the IESPP. I understand that, pursuant to paragraph 7 of the Legislative Decree no. 196/2003, I have the right to, without limitation, access, delete, update, correct, or terminate, for legitimate reason, the Data processing.

Furthermore, I am aware that Data will not be used for direct-marketing purposes. In addition, Data provided can be reviewed and questions or complaints can be addressed by contacting my local human resources representative.

Grant Terms Acknowledgment. By accepting the purchase rights, I acknowledge having received and reviewed the IESPP and the Agreement, including this Appendix, in their entirety and fully understand and accept all provisions of the IESPP and the Agreement, including this Appendix.

I further acknowledge having read and specifically approve the following paragraphs of the Agreement: section 8 (“Tax Obligations”), section 9 (“Nature of Grant”), section 13 (“Language”), section 12 (“Choice of Law and Venue”), and the “Data Privacy Notice” provision set forth above in this Appendix.

JAPAN

No country-specific provisions.

KOREA

No country-specific provisions apply.

MALAYSIA

No country-specific provisions apply.

MEXICO

Payroll Withholding Authorization. In order to purchase Common Stock under the IESPP, I understand that I must sign the Payroll Withholding Authorization Form (attached here and distributed to me by the Company or by the Employer) in addition to this Agreement and the Enrollment Form, whereby I request and authorize the Employer to withhold from my Earnings the amount specified in the Enrollment Form. I agree that this withholding will continue until I file the prescribed notification form with the Plan Administrator notifying him/her of my withdrawal from the IESPP. I understand that payroll withholding and the purchase of Common Stock under the IESPP will not take place unless and until I sign and return the Enrollment Form to the Employer.

Acknowledgement of the Agreement. By enrolling in the IESPP, I acknowledge that I have received a copy of the IESPP and the Agreement, including this Appendix. I acknowledge further that I accept all the provisions of the IESPP and the Agreement, including this Appendix. I also acknowledge that I have read and specifically and expressly approve the terms and conditions set forth in the Nature of Grant section of the Agreement, which clearly provide as follows:

(1) my participation in the IESPP does not constitute an acquired right;

(2) the IESPP and my participation in it are offered by the Company on a wholly discretionary basis;

(3) my participation in the IESPP is voluntary; and

(4) the Company and its Foreign Subsidiaries are not responsible for any decrease in the value of any Common Stock acquired at purchase.

Labor Law Acknowledgement and Policy Statement. By accepting the grant of the purchase rights, I acknowledge that Microchip Technology Incorporated, with registered offices at 2355 West Chandler Boulevard, Chandler AZ 85224, U.S.A. is solely responsible for the administration of the IESPP. I further acknowledge that my participation in the IESPP, the grant of the purchase rights and any acquisition of Common Stock under the IESPP do not constitute an employment relationship between myself and the Company because I am participating in the IESPP on a wholly commercial basis and my sole employer is Microchip Technology Mexico, S.DE R.L. De C.V. Based on the foregoing, I expressly acknowledge that the IESPP and the benefits that I may derive from participation in the IESPP do not establish any rights between myself and the Employer, and do not form part of the employment conditions and/or benefits provided by Microchip Technology Mexico, S.DE R.L. De C.V., and any modification of the IESPP or its termination shall not constitute a change or impairment of the terms and conditions of my employment.

I further understand that my participation in the IESPP is the result of a unilateral and discretionary decision of the Company; therefore, the Company reserves the absolute right to amend and/or discontinue my participation in the IESPP at any time, without any liability to me.

Finally, I hereby declare that I do not reserve any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the IESPP or the benefits derived under the IESPP, and I therefore grant a full and broad release to the Company, its Foreign Subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise and reiterate that I do not reserve any present or future action or right against the Company, its Foreign Subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives.

Spanish Translation

Reconocimiento del Contrato de Suscripción. *Mediante mi inscripción en el IESPP, reconozco que he recibido una copia del IESPP, y del Contrato de Suscripción, incluyendo este Apéndice. Además reconozco que acepto todas las disposiciones del IESPP y el Contrato de Suscripción, incluyendo este Apéndice. Asimismo, reconozco que he leído y específica y expresamente apruebo los términos y condiciones establecidos en el apartado intitulado Naturaleza del Otorgamiento del Contrato de Suscripción, que claramente dispone lo siguiente:*

(1) Mi participación en el IESPP no constituye un derecho adquirido;

(2) El IESPP y mi participación en el mismo son ofrecidos por la Compañía sobre una base totalmente discrecional;

(3) Mi participación en el IESPP es voluntaria; y

(4) La Compañía y sus Subsidiarias no son responsables de ninguna disminución en el valor de las Acciones Comunes de la Compañía adquiridas al momento de la compra.

Reconocimiento de Ley Laboral y Declaración de la Política. *Al aceptar el otorgamiento de la opción para comprar Acciones Comunes de la Compañía reconozco que Microchip Technology Incorporated, con oficinas registradas en 2355 West Chandler Boulevard, Chandler AZ 85224, U.S.A., es únicamente responsable por la administración del IESPP. Además, reconozco que mi participación en el IESPP, el otorgamiento de la opción de comprar Acciones Comunes de la Compañía de conformidad con el IESPP no constituyen una relación de trabajo entre yo y la Compañía porque estoy participando en el IESPP en sobre una base exclusivamente comercial y mi único patrón es Microchip Technology Mexico, S.DE R.L. De C.V. Con Base en lo anterior, expresamente reconozco que el IESPP y los beneficios que pueden derivarse a mi favor de la participación en el IESPP no establecen ningún derecho entre yo y mi Patrón y no forman parte de las condiciones de trabajo y / o prestaciones otorgadas por Microchip Technology Mexico, S.DE R.L. De C.V., y cualquier modificación del IESPP o su terminación no constituirá un cambio o deterioro de los términos y condiciones de mi trabajo.*

Además, comprendo que mi participación en el IESPP es causada por una decisión unilateral y discrecional de la Compañía, por lo que la Compañía se reserva el derecho absoluto a modificar y / o discontinuar mi participación en el IESPP en cualquier momento, sin responsabilidad alguna para conmigo.

Finalmente, por medio del presente declaro que no me reservo ninguna acción o derecho para interponer una demanda en contra de la Compañía por contraprestación o daño o perjuicio alguno en relación con cualquier disposición del IESPP o de los beneficios derivados del IESPP y, en consecuencia, otorgo un amplio y total finiquito a la Compañía, sus Subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, funcionarios, agentes y representantes con respecto a cualquier demanda que pudiera surgir y reitero que no me reservo ninguna acción o derecho presente o futuro que ejercitar en contra de la Compañía, sus Subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, funcionarios, agentes y representantes.

(Payroll Withholding Authorization Form on Next Page)

ATTACHMENT TO THIS APPENDIX FOR MEXICO

PAYROLL WITHHOLDING AUTHORIZATION FORM
FOR EMPLOYEES IN MEXICO

MICROCHIP TECHNOLOGY INCORPORATED
INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

1. I have separately elected to participate in the Microchip Technology Incorporated International Employee Stock Purchase Plan (the "IESPP"), in order to purchase shares of common stock ("Common Stock") of Microchip Technology Incorporated (the "Company") in the United States of America, in accordance with the terms and conditions of the IESPP.

2. I hereby acknowledge receipt of a full copy of the IESPP and that I understand the terms, methods and consequences of participating in the IESPP.

3. In order to make the purchases of Common Stock more efficient, I hereby request and authorize my employer, Microchip Technology Mexico, S.DE R.L. De C.V. ("Employer"), to withhold from my paycheck each pay period the amount specified in my Enrollment Form. I shall have the right to decrease or increase such amount (subject to the limits set forth in the Agreement and the IESPP). This withholding will continue until I inform the Plan Administrator (as defined in the IESPP) to stop such payroll withholding by filing the prescribed notification form.

4. I hereby further request that the withholding to which the preceding paragraph refers shall be delivered by my Employer to the Company or the Plan Administrator. These amounts shall be used by the Company or the Administrator to purchase Common Stock in accordance with the terms and conditions of the IESPP and the Agreement (including the Appendix to the Agreement).

5. I acknowledge and agree that the participation of the Employer in the IESPP is limited to acting as an intermediary in delivering to the Company the amounts withheld from my paycheck each pay period. The Employer will make no additional salary payment or other compensation to me as a result of the IESPP.

6. I hereby acknowledge that the withholding I have requested is not a salary deduction or reduction; therefore, I further acknowledge receipt in full of my entire salary for each pay period during my participation in the IESPP.

7. I acknowledge that my work relationship is exclusively with my Employer and that there is no work relationship between the Company and me.

Therefore, the IESPP shall not be considered a labor benefit in my favor, and my participation in the IESPP creates no labor obligations or rights between the Company and me.

The right to purchase Common Stock under the IESPP is not part of normal or expected compensation for purposes of calculating any termination, severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments under my employment relationship with my Employer.

The value of the right to purchase Common Stock and any Common Stock purchased or to be purchased under the IESPP, if any, are an extraordinary item, which are outside the scope of the employment contract with my Employer, if any.

8. By enrolling in the IESPP, I accept all of its terms and conditions and, in particular, I acknowledge that:

(a) The IESPP is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time.

(b) The grant of the option to purchase shares of Common Stock under the IESPP does not create any contractual or other right to receive future grants of purchase rights, or benefits in lieu of purchase rights.

(c) All determinations with respect to any such future purchase rights, including, but not limited to, the times when rights shall be granted, the purchase price of the shares of Common

Stock, and the time or times when each right shall be exercisable, will be at the sole discretion of the Company.

(d) My participation in the IESPP is voluntary.

(e) The right to purchase Common Stock, if any, ceases upon termination of employment with my Employer for any reason except as may otherwise be explicitly provided in the IESPP.

(f) The future value of the Common Stock purchased under the IESPP is unknown and cannot be predicted with certainty.

(g) The IESPP is governed by, and subject to, the laws of the State of Arizona (excluding such state's conflict of laws provisions).

Sincerely,

_____

Name

_____

Signature

_____

Badge Number

_____

Date

NETHERLANDS

No country-specific provisions apply.

PHILIPPINES

No country-specific provisions apply.

ROMANIA

No country-specific provisions apply.

SINGAPORE

Securities Law Notification. The offer to participate in the IESPP is being made pursuant to the "Qualifying Person" exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("SFA "). The IESPP has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. I should note that the right to purchase shares and/or the shares purchased are subject to section 257 of the SFA and I will not be able to make (i) any subsequent sale of shares of Common Stock in Singapore or (ii) any offer of such subsequent sale of shares of Common Stock underlying the awards in Singapore, unless such sale or offer in is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.).

SPAIN

Termination of Employment. The purchase rights provide a conditional right to shares of Common Stock and may be forfeited or affected by my termination of employment, as set forth in the Agreement. For avoidance of doubt, my rights, if any, to the purchase rights upon termination of employment shall be determined as set forth in the Agreement, including, without limitation, where (i) I am deemed to be constructively dismissed or unfairly dismissed without good cause; (ii) I am dismissed for disciplinary or objective reasons or due to a collective dismissal; (iii) I terminate employment due to a change of work location, duties or any other employment or contractual condition (except as otherwise expressly set forth in the Agreement); or (iv) I terminate employment due to the Company's or any of its Foreign Subsidiaries' unilateral breach of contract. Consequently, the termination of my employment for any of the above reasons shall be governed by paragraphs 4 and 9(k) and (l) of the Agreement, unless otherwise determined by the Company, in its sole discretion.

Labor Law Acknowledgment. By accepting the purchase rights, I acknowledge that I understand and agree to the terms and conditions applicable to participation in the IESPP and that I have received a copy of the IESPP.

I understand that the Company has unilaterally, gratuitously and discretionally decided to grant purchase rights under the IESPP to individuals who may be employees of any Foreign Subsidiary throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Foreign Subsidiary on an ongoing basis, other than as expressly set forth in the IESPP and the Agreement. Consequently, I understand that any grant is given on the assumption and condition that it shall not become a part of any employment contract (either with the Company or any Foreign Subsidiary) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. Furthermore, I understand and freely accept that there is no guarantee that any benefit whatsoever shall arise from any gratuitous and discretionary grant since the future value of the purchase rights and the underlying shares of Common Stock are unknown and unpredictable. In addition, I understand that this grant would not be made but for the assumptions and conditions referred to above; thus, I understand, acknowledge and freely accept that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the purchase rights shall be null and void.

SWEDEN

No country-specific provisions apply.

SWITZERLAND

No country-specific provisions apply.

SWEDEN

No country-specific provisions apply.

SWITZERLAND

No country-specific provisions apply.

TAIWAN

No country-specific provisions apply.

THAILAND

No country-specific provisions apply.

UNITED KINGDOM

Responsibility for Taxes. The following provisions supplement section 8 of the Agreement:

If payment or withholding of my income tax liability is not made within ninety (90) days of the event giving rise to such income tax liability or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the "Due Date"), the amount of any uncollected income tax liability will constitute a loan owed by me to the Employer, effective on the Due Date. I agree that the loan will bear interest at the then-current Official Rate of Her Majesty's Revenue and Customs ("HMRC"), it will be immediately due and repayable, and the Company or the Employer may recover it at any time thereafter by any of the means referred to in section 8 of the Agreement. Notwithstanding the foregoing, in the event that I am a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities Exchange Act of 1934, as amended), I will not be eligible for such a loan to cover any income tax liability. In the event that I am a director or executive officer and such income tax liability is not collected from or paid by me by the Due Date, the amount of any uncollected income tax liability will constitute a benefit to me on which additional income tax and National Insurance contributions will be payable. I will be responsible for reporting and paying any income tax and national insurance contributions due on this additional benefit directly to HMRC under the self-assessment regime.

Exhibit 21.1

MICROCHIP TECHNOLOGY INCORPORATED

LIST OF SIGNIFICANT SUBSIDIARIES

Microchip Technology (Thailand) Co., Ltd.
14 Moo 1, T. Wangtakien
A. Muang Chacherngsao
Chacherngsao 24000
Thailand

Microchip Technology (Barbados) II Incorporated
190 Elgin Avenue
George Town
Grand Cayman
Cayman Islands KY1-9005

Microchip Technology Ireland
Ground Floor, Block W
East Point Business Park
Dublin 3 Ireland

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Form S-3 No. 333-149999,
(2) Form S-8 No. 33-59686,
(3) Form S-8 No. 33-80072,
(4) Form S-8 No. 33-81690,
(5) Form S-8 No. 33-83196,
(6) Form S-8 No. 333-872,
(7) Form S-8 No. 333-40791,
(8) Form S-8 No. 333-67215,
(9) Form S-8 No. 333-93571,
(10) Form S-8 No. 333-51322,
(11) Form S-8 No. 333-53876,
(12) Form S-8 No. 333-73506,
(13) Form S-8 No. 333-96791,
(14) Form S-8 No. 333-99655,
(15) Form S-8 No. 333-101696,
(16) Form S-8 No. 333-103764,
(17) Form S-8 No. 333-109486,
(18) Form S-8 No. 333-119939,
(19) Form S-8 No. 333-140773,
(20) Form S-8 No. 333-149460,
(21) Form S-8 No. 333-177889,
(22) Form S-8 No. 333-183074, and
(23) Form S-8 No. 333-192273;

of our reports dated May 30, 2014, with respect to the consolidated financial statements of Microchip Technology Incorporated and subsidiaries, and the effectiveness of internal control over financial reporting of Microchip Technology Incorporated and subsidiaries, included in this Annual Report (Form 10-K) for the year ended March 31, 2014.

/s/ Ernst & Young LLP

Phoenix, Arizona
May 30, 2014

Exhibit 31.1

CERTIFICATION

I, Steve Sanghi, certify that:

1. I have reviewed this Form 10-K 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 l5d-l5(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: May 30, 2014

/s/ Steve Sanghi
Steve Sanghi
President and CEO

Exhibit 31.2

CERTIFICATION

I, J. Eric Bjornholt, certify that:

1. I have reviewed this Form 10-K 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 l5d-l5(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: May 30, 2014

/s/ J. Eric Bjornholt

J. Eric Bjornholt

Vice President and CFO

Exhibit 32

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 Annual Report of Microchip Technology Incorporated on Form 10-K for the period ended March 31, 2014 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-K 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:	May 30, 2014

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 Annual Report of Microchip Technology Incorporated on Form 10-K for the period ended March 31, 2014 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-K 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:	May 30, 2014