

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended DECEMBER 31, 1996.

OR

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

For the transition period from _____ to _____.

Commission File Number: 0-21184

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

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

86-0629024
(I.R.S. Employer Identification No.)

2355 W. Chandler Blvd., Chandler, AZ 85224-6199
(602) 786-7200
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes X No
---- ----

The number of shares outstanding of the issuer's common stock, as of January 17, 1996:

Common Stock, \$.001 Par Value: 51,405,409 shares

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share amounts)

<TABLE>
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ASSETS

	December 31, 1996	March 31, 1996
	-----	-----
	(Unaudited)	
	<C>	<C>
Cash and cash equivalents	\$ 21,991	\$ 31,059
Accounts receivable, net (note 4)	51,964	47,208
Inventories (note 5)	57,538	56,127
Prepaid expenses	2,872	1,808
Deferred tax asset	19,481	19,121
Other current assets	1,306	1,108
	-----	-----
Total current assets	155,152	156,431
Property, plant & equipment, net (note 6)	225,292	197,383
Other assets	5,452	4,373
	-----	-----
Total assets	\$ 385,896	\$ 358,187
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Lines of credit (note 7)	\$ 11,013	\$ --
Accounts payable	31,867	47,165
Current maturities of long-term debt	2,528	2,734
Current maturities of capital lease obligations	3,883	2,943
Accrued liabilities	35,705	28,207
Deferred income on shipments to distributors	16,093	19,527
	-----	-----
Total current liabilities	101,089	100,576
Long-term line of credit (note 7)	26,700	21,000
Long-term debt, less current maturities	4,120	6,086
Capital lease obligations, less current maturities	3,011	6,164
Long-term pension accrual	946	690
Deferred tax liability	6,828	4,039
Stockholders' equity: (note 8)		
Preferred stock, \$.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	--	--
Common stock, \$.001 par value; authorized 65,000,000 shares; issued 51,923,283 shares at December 31, 1996; 51,581,172 shares at March 31, 1996	52	52
Additional paid-in capital	117,304	120,720
Retained earnings	133,261	98,693
Less shares of common stock held in treasury; 534,000 shares at cost	(7,582)	--
Foreign currency translation adjustment	167	167
	-----	-----
Net stockholders' equity	243,202	219,632
Total liabilities and stockholders' equity	\$ 385,896	\$ 358,187
	=====	=====

(Shares and per share amounts have been restated to reflect a 3-for-2
stock split effected January 6, 1997.)

</TABLE>

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands except share amounts)

Ended 31, ----- (Unaudited)	Three Months Ended December 31, ----- (Unaudited)		Nine Months December -----
	1996	1995	1996
1995			

<S>	<C>	<C>	<C>
Net sales	\$ 87,076	\$ 78,069	\$ 240,747
\$ 213,833			
Cost of sales	43,562	37,686	120,809
102,997			

Gross profit	43,514	40,383	119,938
110,836			
Operating expenses:			
Research and development	8,432	7,497	23,003
20,523			
Selling, general and administrative	14,291	13,374	40,538
36,646			
Restructuring cost	--	--	5,969
--			
Write-off of in-process technology	--	11,448	1,575
11,448			

	22,723	32,319	71,085
68,617			
Operating income	20,791	8,064	48,853
42,219			
Other income (expense):			
Interest income	294	494	1,038
1,516			
Interest expense	(1,061)	(618)	(2,821)
(1,793)			
Other, net	186	89	281
(48)			

Income before income taxes	20,210	8,029	47,351
41,894			
Income taxes	5,455	2,264	12,784
11,861			

Net income	\$ 14,755	\$ 5,765	\$ 34,567
\$ 30,033	=====	=====	=====

Net income per common and common equivalent share	\$ 0.27	\$ 0.10	\$ 0.64
\$ 0.55	=====	=====	=====

Shares used in per share calculation	54,594	55,119	54,201
54,807	=====	=====	=====

=====
 (Shares and per share amounts have been restated to reflect a 3-for-2
 stock split effected January 6, 1997.)

</TABLE>

See accompanying notes to condensed consolidated financial statements

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands except share amounts)

	Nine Months Ended December 31,	
	1996	1995
	-----	-----
Cash flows from operating activities:		
	(Unaudited)	
	<C>	<C>
Net income	\$ 34,567	\$ 30,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	147	354
Provision for inventory valuation	3,640	2,213
Provision for pension accrual	925	782
Provision for restructuring cost	2,483	---
Depreciation	29,598	20,613
Amortization of purchased technology	225	---
Deferred income taxes	2,429	(2,254)
Compensation expense on stock options	30	45
Increase in accounts receivable	(4,903)	(15,477)
Increase in inventories	(5,051)	(13,021)
Increase (decrease) in accounts payable and accrued liabilities	(7,796)	32,687
Change in other assets and liabilities	(6,669)	(2,337)
	-----	-----
Net cash provided by operating activities	49,625	53,638
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(59,990)	(84,826)
Sales of marketable securities	---	10,705
	-----	-----
Net cash used in investing activities	(59,990)	(74,121)
	-----	-----
Cash flows from financing activities:		
Net proceeds from lines of credit	16,712	13,499
Proceeds from issuance of long-term debt	---	2,924
Payments on long-term debt	(2,174)	(2,071)
Payments on capital lease obligations	(2,213)	(2,507)
Repurchase of common stock	(19,463)	---
Proceeds from sale of stock and put options	8,435	5,647
	-----	-----
Net cash provided by financing activities	1,297	17,492
	-----	-----
Net decrease in cash and cash equivalents	(9,068)	(2,991)
Cash and cash equivalents at beginning of period	31,059	32,638
	-----	-----
Cash and cash equivalents at end of period	\$ 21,991	\$ 29,647
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying financial statements have been prepared in accordance

with generally accepted accounting principles, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the accompanying financial statements include all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 1996. The results of operations for the nine months ended December 31, 1996 are not necessarily indicative of the results to be expected for the full fiscal year.

(2) ASiC Acquisition

On June 25, 1996 the Company acquired ASiC Technical Solutions, Inc., a fabless provider of quick turn gate array devices (the "Acquisition"). The Acquisition was treated as a purchase for accounting purposes. The amount paid for the Acquisition and related costs was \$1,750,000. As part of the Acquisition, Microchip allocated a substantial portion of the purchase price to in-process research and development costs, which is consistent with the Company's on-going treatment of research and development costs. The total one-time write-off associated with the Acquisition was \$1,575,000, with the balance to be treated as purchased technology related to current product and amortized over five years. The impact of the Acquisition to the Company's reported financial data and results of operations is immaterial. Therefore, pro-forma information illustrating the combined results after the Acquisition has not been provided.

(3) Restructuring Charges

During the quarter ended June 30, 1996, primarily in response to inventory correction activities at the Company's customers, the Company implemented a series of actions to temporarily reduce production capacity, curtail the growth of inventories and reduce operating expenses. These actions included delaying capital expansion plans and deferring capital spending, a 15% production cutback in wafer fabrication, a headcount reduction in early April, 1996 representing approximately 3% of the Company's worldwide employees, and a two-week wafer fab shut down in early July, 1996. As a result of these actions, the Company recorded a pre-tax restructuring charge of \$5,969,000 in the nine months ended December 31, 1996 to cover costs primarily related to idling part of the Company's 5-inch wafer fab capacity, paying continuing expenses during the wafer fab shutdown and paying severance costs associated with the April, 1996 headcount reduction.

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(4) Accounts Receivable

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

<TABLE>
<CAPTION>

	December 31, 1996	March 31, 1996
	-----	-----
<S>	<C>	<C>
Trade accounts receivable	\$ 52,508	\$ 47,799
Other	1,437	1,243
	-----	-----
	53,945	49,042
Less allowance for doubtful accounts	1,981	1,834
	-----	-----
	\$ 51,964	\$ 47,208
	=====	=====

</TABLE>

(5) Inventories

The Company utilizes the LIFO (last-in, first-out) accounting method and has consistently presented its results of operations on this basis for all periods presented.

The components of inventories are as follows (amounts in thousands):

<TABLE>
<CAPTION>

	December 31, 1996	March 31, 1996
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 2,721	\$ 2,033
Work in process	47,733	43,036
Finished goods	15,862	21,430
	-----	-----
	66,316	66,499

Less allowance for inventory valuation	8,778	10,372
	-----	-----
	\$ 57,538	\$ 56,127
	=====	=====

</TABLE>

(6) Property, Plant and Equipment

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

<TABLE>

<CAPTION>

	December 31, 1996	March 31, 1996
	-----	-----
<S>	<C>	<C>
Land	\$ 10,518	\$ 10,518
Building and building improvements	49,773	36,939
Machinery and equipment	201,371	185,580
Projects in process	52,685	26,389
	-----	-----
	314,347	259,426
Less accumulated depreciation and amortization	89,055	62,043
	-----	-----
	\$ 225,292	\$ 197,383
	=====	=====

</TABLE>

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(7) Lines of Credit

On October 31, 1996, the Company entered into an agreement for a line of credit with a syndicate of U.S. Banks for up to \$90,000,000. The line was completed as a revolving line of credit for a two year period, maturing on October 31, 1998. The current line replaces all previous lines, with no material changes in interest rates or covenants. Lines of credit consist of the following (amounts in thousands):

<TABLE>

<CAPTION>

	December 31, 1996	March 31, 1996
	-----	-----
<S>	<C>	<C>
Unsecured line of credit with a syndicate of U.S. banks for up to \$90,000,000, bearing interest at the Prime Rate or the 30-Day London Interbank Offered Rate (LIBOR) plus 75 basis points (8.25% and 6.41% respectively, at December 31, 1996) expiring October, 1998.	\$ 26,700	\$ 21,000
Unsecured lines of credit with various Taiwan financial institutions for up to \$14,920,000 (U.S. dollar equivalent), borrowings predominately denominated in U.S. Dollars, bearing interest at the NT Dollar Prime Rate less 3.7% or the U.S. Prime Rate less 1.3% (5% and 6.95% respectively, at December 31, 1996), expiring on various dates through September 1998.	\$ 11,013	\$ ----
	-----	-----
	\$ 37,713	\$ 21,000
	=====	=====

</TABLE>

The agreement between the Company and the syndicate of U.S. banks requires the Company to achieve certain financial ratios and operating results. The Company was in compliance with these covenants as of December 31, 1996.

(8) Stockholders' Equity

Stock Split. On December 6, 1996, the Company's Board of Directors declared a 3-for-2 stock split in the form of a stock dividend on the Company's common stock, par value \$.001 per share, to be effective January 6, 1997 for all stockholders of record on December 20, 1996. All per share data and financial information contained in this report have been restated to reflect this stock split.

Stock Repurchase Activity. In connection with a stock repurchase program, during the nine months ended December 31, 1996, the Company purchased a total of 1,326,477 shares of the Company's common stock in open market

activities at a total cost of \$19,463,000. Through December 31, 1996, the Company had reissued through stock option exercises and the Company's stock purchase plan a total of 792,477 shares of the Company's common stock held in treasury.

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Also in connection with the stock repurchase program, as of December 31, 1996, the Company held unexpired put options for 450,000 shares. The unexpired put options have expiration dates ranging from January 10, 1997 to July 10, 1997 at prices ranging from \$15.00 to \$21.25. The net proceeds from the sale and repurchase of put options have been credited to additional paid-in capital. For the nine months ended December 31, 1996, \$770,650 was charged to additional paid-in capital due to the repurchase of put options.

(9) Supplemental Cash Flow Information

Cash paid for income taxes amounted to \$5,340,000 and \$15,560,000 during the nine months ended December 31, 1996 and 1995 respectively. Cash paid for interest amounted to \$2,731,000 and \$1,799,000 for each of the nine month periods ended December 31, 1996 and 1995.

(10) Subsequent Events

On January 16, 1997, the Company filed a registration statement on Form S-3 (Registration Statement No. 333-19919) for a public offering of 1,000,000 shares of Common Stock, plus up to 150,000 shares to cover over allotment, (the "Registration Statement"). The Registration Statement has not yet become effective. The net proceeds of the offering, if any when complete, will be used primarily to reduce outstanding indebtedness incurred by the Company to fund wafer fabrication, test capacity and repurchases of the Company's Common Stock, and for other working capital and general corporate purposes.

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company's net sales for the quarter ended December 31, 1996 were \$87.1 million, an increase of 11.5% over sales of \$78.1 million for the corresponding quarter of the previous fiscal year, and an increase of 9.5% from the previous quarter's sales of \$79.5 million. Net sales for the nine months ended December 31, 1996 were \$240.7 million, an increase of 12.6% over sales of \$213.8 million in the corresponding period of the previous fiscal year. Primarily due to the Company's emphasis on higher margin products, the Company experienced growth in sales of 8-bit microcontrollers and serial and parallel EEPROM memories over these periods and a moderate decline in sales of its lower margin memory and other product categories. The Company anticipates that the sales mix of these product categories will not change substantially in future periods.

The Company's family of 8-bit microcontrollers represents the largest component of Microchip's total net sales. Microcontrollers and associated application development systems accounted for 65.9% and 59.9% of total net sales in the quarters ending December 31, 1996 and 1995, respectively. A related component of the Company's product sales consists of serial and parallel EEPROM memories. These products accounted for 30.5% and 35.9% of total net sales in the quarters ended December 31, 1996 and 1995, respectively. The remaining components of total net sales were the Company's lower margin memory and other miscellaneous products which accounted for 3.6% and 4.2% of total net sales in the quarters ended December 31, 1996 and 1995, respectively. Microcontrollers and associated application development systems accounted for 64.3% and 60.2% of total net sales in the nine months ended December 31, 1996 and 1995, respectively. Serial and parallel EEPROM memory products accounted for 31.6% and 33.0% of net sales in the nine months ended December 31, 1996 and 1995, respectively. The remaining components of total net sales were the Company's lower margin memory and other miscellaneous products which accounted for 4.1% and 6.8% of total net sales in the nine months ended December 31, 1996 and 1995, respectively.

The Company's overall average selling prices for its embedded control products have remained relatively constant while average selling prices of its non-volatile memory products have declined gradually over time. During the nine months ended December 31, 1996, the Company experienced increased pricing pressure on its non-volatile memory products due primarily to industry inventory correction activities. There can be no assurance that average selling prices for the Company's embedded control or other products will not experience increased pricing pressure in the future. An increase in pricing pressure could adversely affect the Company's operating results. There can be no assurance that average selling prices or operating margins for the Company's products will remain constant in the future due to competitive and other pressures. The foregoing statements regarding product mix, average selling prices, pricing pressures, and operating margins are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbors created

thereby. Actual results could differ materially because of the following factors, among others: competition and competitive pressures on pricing and product availability; customer inventory levels, order patterns and seasonality; the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products; the level of orders that are received and can be shipped in a quarter; market acceptance of the

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products of both the Company and its customers; demand for the Company's products; fluctuations in production yields, production efficiencies, overall capacity utilization, changes in product mix; and absorption of fixed costs, labor and other fixed manufacturing costs.

Foreign sales represented 69.2% of net sales in the current fiscal quarter, 63.0% of net sales in the corresponding quarter of the previous fiscal year and 63.1% of net sales in the previous quarter. Foreign sales represented 66.4% and 65.0% of net sales for the nine months ended December 31, 1996 and 1995 respectively. The Company's foreign sales have been predominantly in Asia, Europe and Japan which the Company attributes to the manufacturing strength in those areas for consumer, automotive, office automation, communications and industrial products. The majority of foreign sales are U.S. dollar denominated. The Company has entered into and, from time to time, will enter into hedging transactions in order to minimize exposure to currency rate fluctuations. Although none of the countries in which the Company conducts significant foreign operations has had a highly inflationary economy in the last five years, there can be no assurance that inflation rates or fluctuations in foreign currency rates in countries where the Company conducts operations will not adversely affect the Company's operating results in the future.

Additional Factors Affecting Operations. The Company's net sales in any given quarter are dependent upon a combination of orders received in that quarter for shipment in that quarter ("turns orders") and shipments from backlog. The Company has emphasized its ability to respond quickly to customer orders as part of its competitive strategy. This strategy, combined with current industry conditions, is resulting in customers placing orders with relatively short delivery schedules. This has the effect of increasing turns orders as a portion of the Company's business in any given quarter and reducing the Company's visibility on net sales. The percentage of turns orders has increased in each quarter of fiscal 1997 and, in order for the Company to continue growth in net sales, is expected to increase further in the fourth quarter of fiscal 1997. Because turns orders are more difficult to predict, there can be no assurance that the combination of turns orders and backlog in any quarter will be sufficient to achieve growth in net sales. If the Company does not achieve a sufficient level of turns orders in a particular quarter, the Company's revenues and operating results would be materially adversely affected.

The Company believes the future growth of its 8-bit family of microcontroller products and related memory product sales will depend largely upon the Company's success in having its current and new products designed into high-volume customer applications. Design wins typically precede the Company's volume shipment of products for such applications by 15 months or more. The Company also believes that shipment levels of its proprietary application development systems are an indicator of potential future design wins and microcontroller sales. During the quarter ended December 31, 1996, the Company continued to achieve additional design wins and ship a high level of application development systems. However, there can be no assurance that any particular development system sale will result in a product design win or that any particular design win will result in future product sales.

The Company's operating results are affected by a wide variety of other factors which could adversely impact its net sales and profitability, many of which are beyond the control of the Company. These factors include the Company's ability to design and introduce new products on a timely basis, market acceptance of products of both the company and its customers, customer demand for the Company's products, customer order patterns and seasonality, changes in product mix, whether the Company's customers buy from a distributor or directly from the Company, expansion of direct sales efforts which adversely affect relationships with distributors, product performance and reliability, product obsolescence, the amount of any product returns, availability and utilization of manufacturing

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capacity, fluctuations in manufacturing yield, the availability and cost of raw materials, equipment and other supplies, the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products, technological changes, competition and competitive pressures on prices, and economic, political or other conditions in the United States, Taiwan, Thailand and other worldwide markets served by the Company. The Company believes its ability to continue to increase its manufacturing capacity to meet customer demand and maintain satisfactory delivery schedules will be an important competitive factor. As a result of the increase in fixed costs and operating expenses related to expanding its manufacturing capacity, the Company's operating results may be adversely affected if net sales do not increase sufficiently to offset the increased costs. The Company's products are incorporated into a wide variety of consumer, automotive, office automation, communications and industrial products. A slowdown in demand for products which utilize the Company's products as a result of economic or other conditions in

the United States or worldwide markets served by the Company could adversely affect the Company's operating results.

Gross Profit. The Company's gross profit was \$43.5 million for the quarter ended December 31, 1996 compared with \$40.4 million in the corresponding quarter of the prior year and \$39.8 million in the previous quarter. Gross profit as a percent of sales was 50.0% in the current quarter, 51.7% in the corresponding quarter of the prior fiscal year and 50.0% in the previous quarter. Gross profit for the nine month period ended December 31, 1996 was \$119.9 million and 49.8% of net sales compared to \$110.8 million and 51.8% of net sales in the corresponding period of the prior fiscal year. Gross profit percent remained at the same level as in the prior fiscal period and was down from prior year levels, primarily as a result of reduced 5-inch wafer production at one of the Company's wafer fabs. The Company anticipates that its cost of sales will fluctuate over time, driven primarily by the product mix of 8-bit microcontroller products and related memory and commodity memory products, manufacturing yields, wafer fab loading levels and competitive and economic conditions. The Company anticipates that its gross profit percentage will fluctuate over time, driven primarily by product mix, manufacturing yields and competitive and economic conditions. The Company is continuing the process of transitioning products to smaller geometries and to larger wafer sizes. An 8-inch pilot line was established at the Tempe wafer fab during fiscal 1997 and the Company plans to convert the Tempe fab from a 6-inch facility to an 8-inch facility over time. In addition, the Company has begun the implementation of a 0.7 micron process to which it expects to transition over time. The foregoing statements relating to anticipated gross margins, cost of sales, and the transition to higher yielding manufacturing processes are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbors created thereby. Actual results could differ materially because of the following factors, among others: fluctuations in production yields, production efficiencies, overall capacity utilization; cost and availability of raw materials; absorption of fixed costs, labor and other direct manufacturing costs; the timing and success of the manufacturing process transition; changes in product mix; competitive pressures on prices; and other economic conditions in the United States and other worldwide markets.

The Company has consistently presented its results of operations for all periods on the last-in first-out (LIFO) method and has assessed the net realizable value of inventory based on LIFO costs. LIFO has the effect of matching current costs of production with sales generated during the same period. Production costs have generally decreased over time due to improvements in manufacturing productivity and yields, resulting in lower cost of sales. This downward trend in production costs has resulted in lower cost of sales on a LIFO basis than would have been recognized had a first-in, first-out (FIFO) basis been utilized, decreasing cost of sales \$679,000 for the nine months ended December 31, 1996. As a result of changes in sales and product mix which affected production costs, the LIFO inventory

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decreased and cost of sales increased by \$100,000 for the three months ended December 31, 1996 and by \$250,000 and \$800,000 for the three months and nine months ended December 31, 1995, respectively.

Nearly all of Microchip's assembly operations and a portion of its test requirements are performed by third-party contractors in order to meet product shipment requirements. Reliance on third parties involves some reduction in the Company's level of control over these portions of its business. While the Company reviews the quality, delivery and cost performance of these third-party contractors, there can be no assurance that reliance on third-party contractors will not adversely impact results in future reporting periods if any third-party contractor is unable to maintain assembly and test yields and costs at approximately their current levels.

The Company owns test facilities in Kaohsiung, Taiwan, Republic of China and Chachoengsao, Thailand, near Bangkok. The Company also uses various third-party contractors in Thailand, the Philippines and other locations in Asia for assembly and test. The Company's reliance on facilities in these countries, and maintenance of substantially all of its finished goods inventory overseas, entails certain political and economic risks, including political instability and expropriation, supply disruption, currency controls and exchange fluctuations, as well as changes in tax laws, tariff and freight rates. The Company has not experienced any significant interruptions in its foreign business operations to date. Nonetheless, the Company's business and operating results could be adversely affected if foreign operations or international air transportation were disrupted.

During the fiscal quarter ended December 31, 1996, the Company began the process of bringing its wholly-owned Chachoengsao, Thailand test facility, located near Bangkok, on line for production volumes. While the Company believes the long-term costs at this facility will be at or below existing costs for similar activities, there may be a short-term impact to operating income in fiscal 1997 relating to production efficiencies and yields, operation levels, fixed cost absorption and operating cost levels. It is anticipated that the Chachoengsao, Thailand facility will reach optimal loading by the beginning of fiscal 1998. The foregoing statement is a forward-looking statement within the

meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbors created thereby. Actual results could differ materially because of the following factors, among others: delays in construction and facilitation of the Chachoengsao, Thailand facility; production yields and efficiencies; factory absorption rates; capacity loading; political instability and expropriation; supply disruption; operating cost levels; and the rate of revenue growth.

Research and Development. The Company is committed to continued investment in new and enhanced products, including its development systems software and in its design and manufacturing process technology, which is a significant factor in maintaining the Company's competitive position. The dollar investment in research and development increased 12.5% in the current fiscal quarter relative to the corresponding quarter of the prior fiscal year, and increased by 10.2% compared to the investment in the immediately preceding quarter. Research and development costs increased 12.1% in the nine month period ended December 31, 1996 compared to the corresponding period of the prior fiscal year. The Company will continue to invest in research and development in the future, including an investment in process and product development associated with the capacity expansion of the Company's fabrication facilities. The Company's inability to complete, or delay in completing, new product introductions and manufacturing process improvements could have a material adverse impact on the Company's future operating results and competitive position.

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Selling, General and Administrative. Through expense controls and operating efficiencies, the Company has reduced selling, general and administrative expenses in the current fiscal quarter to 16.4% of net sales as compared to 17.1% of net sales in the corresponding quarter of the prior fiscal year. Selling, general and administrative expenses in the prior quarter were 17.1% of sales. Selling, general and administrative expenses were 16.8% and 17.1% of net sales in the nine month periods ended December 31, 1996 and 1995, respectively. This has been achieved while the Company has continued to invest significantly in incremental worldwide sales and technical support resources to promote the Company's embedded control products. However, there can be no assurance that revenue growth in the future will be sufficient to maintain the current level in selling, general and administrative expenses as a percentage of sales.

Other Income (Expense). Interest income of \$294,000 in the current fiscal quarter decreased from \$494,000 in the corresponding quarter of the prior fiscal year and from \$330,000 in the previous quarter. Interest income of \$1,038,000 in the nine months ended December 31, 1996 decreased from \$1,516,000 in the corresponding period of the prior fiscal year. The decrease in both instances is attributable to lower invested cash balances.

Interest expense of \$1,061,000 in the current fiscal quarter increased from \$618,000 in the corresponding quarter of the prior fiscal year and from \$1,001,000 in the previous quarter. Interest expense of \$2,821,000 in the nine months ended December 31, 1996 increased from \$1,793,000 in the corresponding period of the prior fiscal year. The increase in interest expense is related to additional borrowings associated with the Company's capital equipment additions and stock repurchase program. Other income represents immaterial non-operating items. On January 16, 1997, the Company filed a registration statement for a public offering of 1,000,000 shares of Common Stock, plus up to 150,000 shares to cover over allotment, (see Item 5, "Other Information"). The proceeds from the offering, if and when completed, will be used primarily to reduce outstanding indebtedness incurred by the Company to fund wafer fabrication, final test capacity and repurchases of the Company's Common Stock, and for other working capital and general corporate purposes. This will have the effect of reducing interest expense in the next fiscal quarter and in the first quarter of fiscal 1998. It is currently anticipated that, thereafter, due to increased capital spending planned for fiscal 1998, borrowings and interest expense will increase.

The use of available cash and debt to fund expected capital expenditures in future periods, without additional capital provided from financing activities, will result in an increase in interest expense.

Provision for Income Taxes. Provisions for income taxes reflect taxes on foreign earnings and federal and state income taxes on U.S. earnings. The Company had an effective tax rate of 27.0% and 28.2% for the three month periods ended December 31, 1996 and 1995, respectively. Effective tax rates for the nine months ended December 31, 1996 and 1995 were 27.0% and 28.3% respectively. The Company has achieved a 27.0% effective tax rate as a result of its geographical mix of sales and earnings, foreign tax holidays and foreign tax rates that are lower than the U.S. Federal rate of 35%. The Company currently believes that the tax rate for the foreseeable future will remain at approximately 27.0%, however, there can be no assurance that the Company will maintain such a rate in the future due to possible changes in tax laws and regulations and other factors.

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Liquidity and Capital Resources

The Company had \$22.0 million in cash as of December 31, 1996, a decrease of \$9.1 million from the March 31, 1996 balance. The Company has an

unsecured short-term line of credit totaling \$14.9 million with certain foreign banks. As of December 31, 1996, \$11.0 million had been utilized under the financing arrangements with the foreign banks. There are no covenants related to the foreign line of credit. The Company also has an unsecured line of credit with a syndicate of U.S. banks totaling \$90.0 million. As of December 31, 1996, \$26.7 million had been utilized under the financing arrangements. The domestic line of credit requires the Company to achieve certain financial ratios and operating results. The Company was in compliance with these covenants as of December 31, 1996.

At December 31, 1996, an aggregate of \$67.2 million of these facilities was available, subject to financial covenants and ratios with which the Company is currently in compliance. The Company's ability to fully utilize these facilities is dependent on the Company remaining in compliance with such covenants and ratios.

During the nine months ended December 31, 1996, the Company generated \$49.6 million of cash from operating activities, a decrease of \$4.0 million from the corresponding period of the previous fiscal year. The reduction in cash flow from operations was primarily due to the reduction in net income (as a result of the restructuring and write-off of in-process technology), an increase in depreciation charges and changes in accounts payable and accrued liabilities.

The Company's level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the nine months ended December 31, 1996 and 1995 were \$60.0 million and \$84.8 million, respectively. Capital expenditures were primarily for the expansion of production capacity and the addition of research and development equipment in each of these periods. The Company currently anticipates spending approximately \$140 million during the next twelve months primarily for additional capital equipment to increase capacity at its wafer fabrication facilities, to construct additional facilities and to expand test operations. Capital expenditures will be financed by cash flow from operations, existing cash, available debt arrangements, proceeds from the recently announced public offering, if and when completed, (see Item 5, "Other Information") and other sources of financing, including debt or additional equity financing. The Company believes that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient additional manufacturing capacity to meet its needs for that period.

Net cash provided by financing activities was \$1.3 million and \$17.5 million for the nine months ended December 31, 1996 and 1995, respectively. Repurchases of common stock were \$19.5 million for the nine month period ended December 31, 1996. Proceeds from the sale of stock and put options was \$8.4 million and \$5.6 million for the nine months ended December 31, 1996 and 1995, respectively. Proceeds from the issuance of long term debt was \$2.9 million for the nine months ended December 31, 1995. Payments on long term debt and capital lease obligations were \$4.4 million and \$4.6 million for the nine months ended December 31, 1996 and 1995, respectively. Net proceeds from lines of credit was \$16.7 million and \$13.5 million for the nine months ended December 31, 1996 and December 31, 1995 respectively.

The Company believes that proceeds from the recently announced public offering, if and when completed, (see Item 5, "Other Information"), combined with cash generated from operations and borrowings under its bank line of credit will be sufficient to meet the Company's currently anticipated cash requirements for at least the next twelve months. However, due to the capital intensive nature of the

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semiconductor industry, the Company may seek debt financing and/or additional equity during the next twelve months. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in additional dilution to existing stockholders. The foregoing statements relating (i) to the level of capital expenditures, (ii) sufficient manufacturing capacity; (iii) anticipated cash requirements; and (iv) adequacy and availability of capital resources, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbors created thereby. Actual results could differ materially because of the following factors, among others: future operating results; the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products; customer demand for the Company's products; the availability of equipment and other supplies; the amount and timing of cash flows generated from operations; and economic conditions in the United States and other worldwide markets.

PART II. OTHER INFORMATION

Item 5. OTHER INFORMATION

On December 6, 1996, the Company's Board of Directors declared a 3-for-2 stock split in the form of a stock dividend on the Company's Common Stock, par value \$.001 per share to be effective January 6, 1997 for all stockholders of record on December 20, 1996. All per share data and financial information contained in this Report have been restated to reflect this stock

split.

On January 16, 1997, the Company filed a registration statement on Form S-3 (Registration Statement No. 333-19919) for a public offering of 1,000,000 shares of Common Stock, plus up to 150,000 shares to cover over allotment, (the "Registration Statement"). The Registration Statement has not yet become effective. The net proceeds of the offering, if and when completed, will be used primarily to reduce outstanding indebtedness incurred by the Company to fund wafer fabrication, final test capacity and repurchases of the Company's Common Stock, and for other working capital and general corporate purposes. The Common Stock to be sold under the Registration Statement cannot be sold, nor may offers to buy be accepted, prior to the time the Registration Statement becomes effective.

The Company is currently in discussions with Lucent Technologies Inc. ("Lucent") regarding alleged infringement of certain of Lucent's semiconductor patents. The Company has investigated Lucent's claims and believes it does not infringe any of the asserted patents. Notwithstanding the Company's position, the Company and Lucent have exchanged various proposals for a patent license, but, to date, have been unable to reach an agreement. Although the outcome of the discussions with Lucent is not presently determinable, the Company believes that, should a license be necessary, the Company will be able to obtain a license with Lucent on commercially reasonable terms. However, no assurances can be given that a mutually satisfactory conclusion will be achieved. In such event, the Company may be subject to litigation, which could result in substantial cost to the Company and diversion of management effort. If unsuccessful, the Company could be forced to pay royalties on past and future sales. Any such litigation and/or royalty payments could have a material adverse impact on the Company's business and operating results.

The Securities and Exchange Commission is presently conducting a private, non-public investigation into matters relating to the Company's disclosure on February 26, 1996 that revenues and earnings for the quarter ended March 31, 1996 would be lower than previously estimated. While the outcome of the investigation, and its effect on the Company, if any, cannot be predicted at the present

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time, the Company does not believe that the investigation will result in a material adverse effect on the Company.

The Company's operating results are affected by a wide variety of factors which could adversely impact its net sales and profitability, many of which are beyond control of the Company. For a complete description of those factors, please refer to the Registration Statement under "Risk Factors".

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits
 - Exhibit 11 Computation of Net Income Per Share

- (b) Reports on Form 8-K.

The registrant did not file any reports on Form 8-K during the quarter ended December 31, 1996.

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SIGNATURES

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

MICROCHIP TECHNOLOGY INCORPORATED

Date: January 23, 1997 By: /s/ C. Philip Chapman

C. Philip Chapman
Vice President, Chief Financial Officer
and Secretary (Duly Authorized Officer, and
Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Page No.
-----	-----

11 Computation of Net Income Per Share.....21

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

EXHIBIT 11 - COMPUTATION OF NET INCOME PER SHARE
(in thousands, except per share amounts)

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	Three Months Ended December 31,		Nine Months Ended December 31,	
	1996	1995	1996	1995
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Net income	\$ 14,755	\$ 5,765	\$ 34,567	\$ 30,033
Weighted average shares:				
Common shares outstanding	51,189	50,847	51,274	50,576
Common equivalent shares representing shares issuable upon exercise of stock options(1)	3,405	4,272	2,927	4,231
Total weighted average shares - primary	54,594	55,119	54,201	54,807
Incremental common equivalent shares (calculated using the higher of end of period or average market value) (2)	297	-----	808	75
Total weighted average shares - fully diluted	54,891	55,119	55,009	54,882
Primary net income per common and common equivalent share	\$ 0.27	\$ 0.10	\$ 0.64	\$ 0.55
Fully diluted net income per common and common equivalent share	\$ 0.27	\$ 0.10	\$ 0.63	\$ 0.55

</TABLE>

1 Amount calculated using the treasury stock method and fair market values for stock.

2 This calculation is submitted in accordance with Regulation S-K Item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

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