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, 1997.

OR

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

For the transition period from _____ to _____.

Commission File Number: 0-21184

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

Delaware	86-0629024
(State or Other Jurisdiction of Incorporation or Organization)	(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 30, 1998:

Common Stock, $.001 Par Value: 53,013,109 shares

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share amounts)

<TABLE>
<CAPTION>

ASSETS

	December 31, 1997	March 31, 1997
	(Unaudited)	
<S>	<C>	<C>
Cash and cash equivalents	$ 41,844	$ 42,999
Accounts receivable, net	62,053	61,102
Inventories	58,742	56,813
Prepaid expenses	3,107	1,715
Deferred tax asset	28,548	24,251
Other current assets	1,450	2,656
Total current assets	195,744	189,536
Property, plant and equipment, net	318,363	234,058
Other assets	4,407	4,498
Total assets	$ 518,514	$ 428,092

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	$ 49,940	$ 35,281
Current maturities of long-term debt	2,339	2,470
Current maturities of capital lease obligations	2,588	3,776
Accrued liabilities	52,482	36,392
Deferred income on shipments to distributors	33,135	20,441
Total current liabilities	140,484	98,360
Long-term debt, less current maturities	1,780	3,616
Capital lease obligations, less current maturities	630	2,383
Long-term pension accrual	974	980
Deferred tax liability	6,098	6,169
Stockholders' equity:		
Preferred stock, $.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	--	--
Common stock, $.001 par value; authorized 100,000,000 shares; issued 53,897,655 and outstanding 53,647,655 shares at December 31, 1997; issued 53,300,619 and outstanding 53,196,037 shares at March 31, 1997.	54	53
Additional paid-in capital	176,047	168,185
Retained earnings	199,966	149,825
Less shares of common stock held in treasury; 250,000 shares at cost at December 31, 1997 and 104,582 shares at cost at March 31, 1997	(7,519)	(1,479)
Net stockholders' equity	368,548	316,584
Total liabilities and stockholders' equity	$ 518,514	$ 428,092

</TABLE>

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1997	1996	1997	1996
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Net sales	$ 103,550	$ 87,076	$ 303,814	$ 240,747
Cost of sales	53,746	43,562	152,476	120,809
Gross profit	49,804	43,514	151,338	119,938
Operating expenses:				
Research and development	10,009	8,432	28,599	23,003
Selling, general and administrative	17,212	14,291	50,638	40,538
Special charges	5,000	--	5,000	7,544
	32,221	22,723	84,237	71,085
Operating income	17,583	20,791	67,101	48,853
Other income (expense):				
Interest income	755	294	2,340	1,038
Interest expense	(267)	(1,061)	(835)	(2,821)
Other, net	(89)	186	80	281
Income before income taxes	17,982	20,210	68,686	47,351
Income taxes	4,855	5,455	18,545	12,784
Net income	$ 13,127	$ 14,755	$ 50,141	$ 34,567
Basic net income per share	$ 0.24	$ 0.29	$ 0.94	$ 0.67
Diluted net income per share	$ 0.23	$ 0.27	$ 0.89	$ 0.64
Weighted average common shares outstanding	53,762	51,189	53,362	51,274
Weighted average common and common equivalent shares outstanding	56,822	54,594	56,557	54,201

</TABLE>

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

<TABLE>
<CAPTION>

	Nine Months Ended December 31,	
	1997	1996
	(Unaudited)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 50,141	$ 34,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	456	147
Provision for inventory valuation	669	3,640
Provision for pension accrual	954	925
Special charges	5,000	2,483
Depreciation and amortization	39,055	29,598
Amortization of purchased technology	225	225
Deferred income taxes	(4,368)	2,429
Compensation expense on stock options	--	30
Increase in accounts receivable	(1,407)	(4,903)

Increase in inventories	(2,598)	(5,051)
Increase (decrease) in accounts payable and accrued liabilities	25,749	(7,796)
Change in other assets and liabilities	11,413	(6,669)
Net cash provided by operating activities	125,289	49,625
Cash flows from investing activities:		
Capital expenditures	(123,359)	(59,990)
Net cash used in investing activities	(123,359)	(59,990)
Cash flows from financing activities:		
Net proceeds from lines of credit	--	16,712
Payments on long-term debt	(1,967)	(2,174)
Payments on capital lease obligations	(2,941)	(2,213)
Repurchase of common stock	(7,519)	(19,463)
Proceeds from sale of stock and put options	9,342	8,435
Net cash provided by (used in) financing activities	(3,085)	1,297
Net decrease in cash and cash equivalents	(1,155)	(9,068)
Cash and cash equivalents at beginning of period	42,999	31,059
Cash and cash equivalents at end of period	$ 41,844	$ 21,991

</TABLE>

See accompanying notes to condensed consolidated financial statements

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.

In the nine months ended December 31, 1997, the Company changed its method of accounting for inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The change did not have a material effect on the results of operations for the nine months. The FIFO method is the predominant accounting method used in the semiconductor industry. Prior to this change, the Company's inventory costs did not differ significantly under the two methods. Prior period results of operations have not been restated for this change as the impact was not material.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128 in the quarter ended December 31, 1997. Statement 128 establishes standards for computing and presenting earnings per share ("EPS") and supersedes APB Opinion No. 15. Statement 128 replaces primary EPS with basic EPS and requires dual presentation of basic and diluted EPS. Statement 128 is effective for annual and interim periods ending after December 15, 1997. Earlier adoption was not permitted. All prior period EPS data have been restated to conform to Statement 128.

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, 1997. The results of operations for the nine months ended December 31, 1997 are not necessarily indicative of the results to be expected for the full fiscal year.

(2) Legal Settlement With Lucent Technologies Inc.

On January 13, 1998, the Company finalized a settlement of its patent litigation with Lucent Technologies Inc. In connection with this settlement, the Company has recorded a $5 million charge during the quarter ended December 31, 1997. Under the terms of the settlement, Microchip made a one-time cash payment

to Lucent and has also issued to Lucent a warrant to acquire Common Stock of the Company. The terms of the settlement also provide for the Company to make a contingent payment to Lucent if the Company's earnings per share performance for the three and one-half year period ending June 30, 2001 does not meet certain targeted levels. The timing of any contingent payment may be earlier in the event of an acquisition of the Company. It is currently anticipated that any contingent payment required under the terms of the settlement will be expensed in the period the amount is determined.

(3) Accounts Receivable

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

	December 31, 1997	March 31, 1997
	(unaudited)	
Trade accounts receivable	$63,944	$62,165
Other	536	1,031
	64,480	63,196
Less allowance for doubtful accounts	2,427	2,094
	$62,053	$61,102

(4) Inventories

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

	December 31, 1997	March 31, 1997
	(unaudited)	
Raw materials	$ 3,163	$ 2,310
Work in process	36,948	44,813
Finished goods	27,564	18,021
	67,675	65,144
Less allowance for inventory valuation	8,933	8,331
	$58,742	$56,813

(5) Property, Plant and Equipment

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

	December 31, 1997	March 31, 1997
	(unaudited)	
Land	$ 11,178	$ 10,837
Building and building improvements	57,175	51,796
Machinery and equipment	296,247	218,284
Projects in process	91,565	52,608
	456,165	333,525
Less accumulated depreciation and amortization	137,802	99,467
	$318,363	$234,058

(6) Lines of Credit

The Company has an unsecured line of credit with a syndicate of U.S. banks for up to $90,000,000, bearing interest at the Prime Rate (8.25% at December 31, 1997) and expiring in October, 2001. At March 31, 1997 and December 31, 1997 there were no borrowings against the line of credit. The agreement between the Company and the syndicate of banks requires the Company to achieve certain financial ratios and operating results. The Company was in compliance with these covenants as of December 31, 1997. The Company also has an unsecured short term line of credit totaling $22.3 million with certain foreign banks. There were no borrowings under the foreign line of credit as of December 31, 1997. There are no covenants related to the foreign line of credit.

(7) Stockholders' Equity

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. As of June 30, 1997, the Company had reissued all of these shares through stock option exercises and the Company's employee stock purchase plan. During the quarter ended December 31, 1997, the Company purchased 250,000 additional shares of the Company's Common Stock at a total cost of $7,519,000 in connection with the stock repurchase program. All of these shares remained in Treasury Stock as of December 31, 1997. Also, in connection with the stock repurchase program, during the nine months ended December 31, 1997, the Company sold put options for 700,000 shares of Common Stock at prices ranging from $29.50 to $38.81 per share. During the quarter ended December 31, 1997 the Company repurchased put options for 300,000 shares. The net proceeds from the sale and repurchase of these options, in the amount of $2,215,330 for the nine months ended December 31, 1997, has been credited to additional paid-in capital. As of December 31, 1997, the Company had outstanding put options for 400,000 shares which have expiration dates ranging from June 16,1998 to March 3, 1999 at prices ranging from $29.63 to $38.81 per share.

On January 30, 1998 and July 26, 1997, the Company's Board of Director's authorized 2,500,000 shares and 1,500,000 shares, respectively, in connection with a Common Stock repurchase plan. On July 26, 1997, the Board of Directors also authorized the Company to sell up to 750,000 put options in connection with the same plan. Based on the price of Microchip's stock and other pertinent factors, the Company may from time to time purchase shares on the open market or sell put options. As of February 3, 1998 the Company has purchased 1,210,000 shares of Common Stock at an aggregate cost of $29,791,000 and is holding 400,000 put options at prices ranging from $29.63 to $38.81.

Increase to the Number of Authorized Shares. In April, 1997, the Board of Directors approved an amendment to the Company's Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 65,000,000 to 100,000,000. This matter was approved by the stockholders at the 1997 annual stockholders' meeting held on July 28, 1997, and became effective upon the filing of a certificate of amendment to the Restated Certificate of Incorporation with the Delaware Secretary of State on July 28, 1997.

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

Results of Operations

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1997	1996	1997	1996
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	51.9	50.0	50.2	50.2
Gross profit	48.1	50.0	49.8	49.8
Research and development	9.7	9.7	9.4	9.6
Selling, general and administrative	16.6	16.4	16.7	16.8
Special charges	4.8	--	1.6	3.1
Operating income	17.0%	23.9%	22.1%	20.3%

Net Sales. The Company's net sales for the quarter ended December 31, 1997 were $103.6 million, an increase of 18.9% over net sales of $87.1 million for the corresponding quarter of the previous fiscal year, and an increase of 0.6% from the previous quarter's net sales of $103.0 million. The Company's net sales for the nine months ended December 31, 1997 were $303.8 million, an increase of 26.2% over net sales of $240.7 million for the corresponding period of the previous fiscal year. 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 67.7% and 65.9% of total net sales in the three months ended December 31, 1997 and 1996, respectively. A related component of the Company's product sales consists primarily of serial EEPROMs, which accounted for 30.5% of net sales in each of the quarters ended December 31, 1997 and 1996. Microcontrollers and associated application development systems accounted for 69.1% and 64.3% of total net sales in the nine months ended December 31, 1997 and 1996, respectively. Serial EEPROMs and other memory devices accounted for 29.3% and 31.6% of total net sales in the nine months ended December 31, 1997 and 1996, respectively.

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, results in customers placing orders with short delivery schedules. The Company has experienced increasing turns orders as a portion of the Company's business in the nine months ended December 31, 1997, as compared to the corresponding period of the previous fiscal year and the turns order percentage is expected to increase in the current quarter. Because turns orders are difficult to predict, there can be no assurance that the combination of turns orders and shipments from 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. In the quarter ended December 31, 1997, the Company experienced sequentially flat sales primarily due to weakness in turns orders.

The Company's overall average selling prices for its microcontroller products have remained relatively constant, while average selling prices of its non-volatile memory products have declined over time. During the nine months ended December 31, 1997, the Company continued to experience increased pricing pressure on its non-volatile memory products due to the less proprietary nature of these products and increased competition. While average selling prices for microcontrollers have remained relatively constant, the Company has experienced increasing pricing in certain microcontroller product lines due primarily to competitive conditions. There can be no assurance that average selling prices for the Company's microcontroller 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.

The foregoing statements regarding product mix, turns orders, average selling prices and pricing pressures 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: the level of orders that are received and can be shipped in a quarter; inventory mix and timing of customer orders; competition and competitive pressures on pricing and product availability; customers' inventory levels, order patterns and seasonality; the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products; market acceptance of the products of both the Company and its customers; demand for the Company's products; fluctuations in production yields, production efficiencies and overall capacity utilization; changes in product mix; and absorption of fixed costs, labor and other fixed manufacturing costs.

Several countries, predominantly in Asia, have recently experienced economic difficulties including high rates of loan defaults, business failures and currency devaluations. During the quarter ended December 31, 1997, the Company experienced weakness in the expected level of turns orders and net sales related to its business in Asia. The Company derives approximately 38% of its net sales from customers in Asia and Japan and there can be no assurance that such economic difficulties will not continue to adversely affect the Company's operating results in future periods.

Foreign sales represented 71.0% of net sales in the current quarter and 69.0% of net sales in the corresponding quarter of the previous fiscal year and 68.0% of net sales in the immediately proceeding quarter. Foreign sales represented 70.0% and 66.4% of net sales for the nine months ended December 31, 1997 and 1996, respectively. The Company's foreign sales have been predominantly in Asia, Europe and Japan, which the Company attributes to the manufacturing activity 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 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 the Company conducts operations will not adversely affect the Company's operating results in the future.

Additional Factors Affecting Operating Results. The Company believes that future growth in net sales of its 8-bit family of microcontroller products and related memory products 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. The Company continued to achieve a high volume of design wins and shipped significant numbers of application development systems in the three months ended December 31, 1997. There can be no assurance that any particular development system shipment 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 that could adversely impact its net sales and profitability, many of

which are beyond the Company's control. 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 order patterns and seasonality, changes in product mix, whether the Company's customers buy from a distributor or directly from the Company, product performance and reliability, product obsolescence, the amount of any product returns, availability and utilization of manufacturing 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 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 markets served by the Company could adversely affect the Company's operating results.

Gross Profit. The Company's gross profit was $49.8 million in the three months ended December 31, 1997, as compared to $43.5 million in the corresponding quarter of the prior fiscal year, and $52.1 million in the immediately preceding quarter. Gross profit as a percent of sales was 48.1% in the current quarter, 50.0% in the corresponding quarter of the prior fiscal year and 50.6% in the immediately preceding quarter. Gross profit for the nine months ended December 31, 1997 was $151.3 million as compared to $119.9 million for the corresponding period of the previous fiscal year. Gross profit as a percent of sales was 49.8% in both these periods. Gross profit margins during the quarter decreased from the prior period levels, primarily as a result of a change in expected sales mix of lower margin memory products versus higher margin microcontroller products, heightened pricing pressure in Asia, lower utilization of Microchip's wafer fabrication facility during the quarter and increased product obsolescence reserves for slow moving inventory. The Company continues the process of transitioning products to smaller geometries and to larger wafer sizes to reduce future manufacturing costs. Eight-inch wafer production commenced at the Company's Tempe wafer fabrication facility in early fiscal 1998, and the Company is continuing the transition of products to its 0.7 micron process. The Company expects that 25% of its production will come from eight-inch wafers during the quarter ending March 31, 1998. The Company anticipates that its cost of sales and gross profit percentage will fluctuate over time, driven primarily by the mix of 8-bit microcontroller products and related memory products, manufacturing yields, wafer fab loading levels and competitive and economic conditions. 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 efficiency and overall capacity utilization; cost and availability of raw materials; absorption of fixed costs, labor and other direct manufacturing costs; the timing and success of manufacturing process transition; changes in product mix; competitive pressures on prices; and other economic conditions.

All of Microchip's assembly operations 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 this portion 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 yields and costs at approximately their current levels.

The Company owns product final test facilities in Kaohsiung, Taiwan, Republic of China and Chachoengsao, Thailand. The Company also uses various third-party contractors in Thailand, Taiwan, the Philippines, People's Republic of China and other locations in Asia for product assembly. 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, labor disruption, supply disruption, currency controls and exchange fluctuations, as well as changes in tax laws, tariff and freight rates. Microchip currently employs the Alphatec Electronics PCL group of companies ("Alphatec") headquartered in Bangkok, Thailand, for a portion of its product assembly. Alphatec's assembly operations have performed reliably for the Company for several years, however, Alphatec has experienced difficulty in obtaining financing in connection with some of its unrelated joint ventures involving semiconductor fabrication facilities in Thailand. Microchip currently has multiple sources for product assembly and test for most of its package types and has shifted a significant

portion of its assembly to other factories and test requirements to its owned facilities. Despite these actions, there can be no assurance that Microchip may not experience short-term disruption, including possible temporary product shortages and increased assembly and test costs, compared to those received from the current subcontract relationship with Alphatec. 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 second quarter of fiscal 1998, construction was completed on a 20,000 square foot wafer fabrication module at the Company's Tempe, Arizona facility. It is anticipated that this module will begin wafer production in the first quarter of fiscal 1999. In addition, the Company also expanded capacity at its Chandler wafer fabrication facility by adding an additional 3,000 square feet of capacity during the second quarter of fiscal 1998. The foregoing statements regarding additional available capacity and commencement of wafer production 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: delays in facilitation of the expanded Tempe and Chandler wafer fabrication facilities; production yields and efficiencies; factory absorption rates; capacity loading; 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 its design and manufacturing

process technology, which are significant factors in maintaining the Company's competitive position. The dollar investment in research and development increased 18.7% in the current quarter as compared to the corresponding quarter of the previous fiscal year and by 6.7% from the previous quarter. The dollar investment in research and development increased by 24.3% in the nine months ended December 31, 1997 as compared to the corresponding period of the prior fiscal year. The Company will continue to invest in research and development in the future, including investment in process and product development associated with the capacity expansion of the Company's fabrication facilities.

The Company's future operating results will depend to a significant extent on its ability to continue to develop and introduce new products on a timely basis which can compete effectively on the basis of price and performance and which address customer requirements. The success of new product introductions depends on various factors, including proper new product selection, timely completion and introduction of new product designs, development of support tools and collateral literature that make complex new products easy for engineers to understand and use and market acceptance of customers' end products. Because of the complexity of its products, the Company has experienced delays from time to time in completing the development of new products. In addition, there can be no assurance that any new products will receive or maintain substantial market acceptance. If the Company were unable to design, develop and introduce competitive products on a timely basis, its future operating results would be adversely affected.

The Company's future success will also depend upon its ability to develop and implement new design and process technologies. Semiconductor design and process technologies are subject to rapid technological change, requiring large expenditures for research and development. Other companies in the industry have experienced difficulty in effecting transitions to smaller geometry processes and to larger wafers and, consequently, have suffered reduced manufacturing yields or delays in product deliveries. The Company believes that its transition to smaller geometries and to larger wafers will be important for the Company to remain competitive, and operating results could be adversely affected if the transition is substantially delayed or inefficiently implemented.

Selling, General and Administrative. The level of selling, general and administrative expenses in the current fiscal quarter was essentially flat at 16.6% of sales, as compared to 16.4% of sales in the corresponding period of the previous fiscal year. Selling, general and administrative expenses were 16.7% of sales in the nine month period ended December 31, 1997, as compared to 16.8% for the corresponding period in the prior fiscal year.

Other Income (Expense). Interest expense in the three months ended December 31, 1997 decreased over the same period of the previous fiscal year due to lower borrowings associated with the Company's capital equipment additions, and was essentially in line with interest expense for the previous quarter. Interest income in the three months ended December 31, 1997 increased from the same period of the previous year and decreased from the previous fiscal quarter primarily as a result of changes in invested cash balances. Other income represents numerous immaterial non-operating items. The Company's interest expense will increase in the fourth quarter of fiscal 1998 as the Company increases its borrowings due to purchases of shares of Common Stock in connection with the Company's share repurchase plan. Interest expense would be

adversely impacted by increased interest rates.

Provision for Income Taxes. Provisions for income taxes reflect tax on foreign earnings and federal and state tax on U.S. earnings. The Company had an effective tax rate of 27.0% for each of the three months ended December 31, 1997 and 1996 and each of the nine months ended September 30, 1997

and 1996, due primarily to lower tax rates at its foreign locations. The Company believes that its tax rate for the foreseeable future will be approximately 27.0%. The foregoing statement regarding the Company's anticipated future tax rate 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: taxation rates in geographic regions where the Company has significant operations; and current tax holidays available in foreign locations.

Liquidity and Capital Resources

The Company had $41.8 million in cash and cash equivalents at December 31, 1997, a decrease of $1.2 million from the March 31, 1997 balance. The Company has an unsecured line of credit with a syndicate of U.S. banks totaling $90.0 million. The line is a revolving line of credit, expiring on October 28, 2001. There were no borrowings under the line of credit as of December 31, 1997. The line of credit requires the Company to achieve certain financial ratios and operating results. The Company was in compliance with these covenants at December 31, 1997. The Company also has an unsecured short term line of credit totaling $22.3 million with certain foreign banks. There were no borrowings under the foreign line of credit as of December 31, 1997. There are no covenants related to the foreign line of credit.

At December 31, 1997, an aggregate of $112.3 million of these facilities was available, subject to financial covenants and ratios with which the Company was 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, 1997, the Company generated $125.3 million of cash from operating activities, an improvement of $75.7 million from the nine months ended December 31, 1997. The improvement in cash flow from operations was primarily due to increased profitability, the impact of increases in accounts payable and accrued expenses, changes in other assets and liabilities and an increase in depreciation expense.

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, 1997 and 1996, were $123.4 million and $60.0 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 intends to spend approximately $25.0 million during the balance of this fiscal year and approximately $60.0 million during the next fiscal year for additional capital equipment to increase capacity at its existing wafer fabrication facilities, to construct additional facilities and to expand product test operations. The Company currently anticipates capital expenditures will be financed by cash flow from operations, available debt arrangements and other sources of financing. The Company believes that the capital expenditures anticipated to be incurred over the next 12 months will provide sufficient additional manufacturing capacity to meet its currently anticipated needs. The foregoing statements regarding the anticipated level of capital expenditures during the remainder of this fiscal year and during the next fiscal year 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 capital expenditures could differ materially because of the following factors, among others: the cyclical nature of the semiconductor industry and the markets addressed by the Company's products; market acceptance of the

products of both the Company and its customers; utilization of current manufacturing capacity; the availability and cost of raw materials, equipment and other supplies; and the economic, political and other conditions in the markets served by the Company.

Net cash used in financing activities was $3.1 million for the nine months ended December 31, 1997. Net cash provided by financing activities was $1.3 million for the nine months ended December 31, 1996. Proceeds from sale of stock and put options were $9.3 million and $8.4 million for the nine months ended December 31, 1997 and 1996, respectively. Payments on long term debt and capital lease obligations were $4.9 million and $4.4 million for the nine months ended December 31, 1997 and 1996 respectively. Proceeds from lines of credit were $16.7 million for the nine months ended December 31, 1996. Cash expended for the purchase of the Company's Common Stock was $7.5 million and $19.5 million for the nine months ended December 31, 1997 and December 31, 1996, respectively.

On January 30, 1998 and July 26, 1997, the Company's Board of Directors authorized 2,500,000 shares and 1,500,000 shares, respectively, in connection with a Common Stock repurchase plan. On July 26, 1997, the Board of Directors also authorized the Company to sell up to 750,000 put options in connection with the same plan. Based on the price of Microchip's stock and other pertinent factors, the Company may from time to time purchase shares on the open market or sell put options. As of February 3, 1998 the Company has purchased 1,210,000 shares of Common Stock at an aggregate cost of $29,791,000 and is holding 400,000 put options at prices ranging from $29.63 to $38.81.

The Company believes that its existing sources of liquidity combined with cash generated from operations will be sufficient to meet the Company's currently anticipated cash requirements for at least the next 12 months. However, the semiconductor industry is capital intensive. In order to remain competitive, the Company must continue to make significant investments in capital equipment, for both production and research and development. The Company may seek additional equity or debt financing during the next 12 months for the capital expenditures required to maintain or expand the Company's wafer fabrication and product test facilities. The timing and amount of any such capital requirements will depend on a number of factors, including demand for the Company's products, product mix, changes in industry conditions and competitive factors. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing could result in additional dilution to existing investors.

PART II. OTHER INFORMATION.

Item 1. LEGAL PROCEEDINGS.

Microchip Technology Incorporated v. Lucent Technologies Inc. (District of Arizona, CIV97-1502 PHX EHC) On January 13, 1998, the Company finalized a settlement of its patent litigation with Lucent Technologies Inc. In connection with this settlement the Company recorded a $5 million charge during the quarter ended December 31, 1997. Under the terms of the settlement, Microchip made a one-time cash payment to Lucent and also issued to Lucent a warrant to acquire Common Stock of the Company. The terms of the settlement also provide for the Company to make a contingent payment to Lucent if the Company's earnings per share performance for the three and one-half year period ending June 30, 2001 does not meet certain targeted levels. The timing of any contingent payment may be earlier in the event of an acquisition of the Company. It is currently anticipated that any contingent payment required under the terms of the settlement will be expensed in the period the amount is determined. See also Footnote 2 to the Condensed Consolidated Financial Statements, above.

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

(a) Exhibits

10.1 Development Agreement dated as of August 29, 1997 by and between Microchip Technology Incorporated and the City of Chandler, Arizona

10.2 Development Agreement dated as of July 17, 1997 by and between Microchip Technology Incorporated and the City of Tempe, Arizona

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, 1997.

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: February 13, 1998 By: /s/ C. Philip Chapman

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

EXHIBIT INDEX

Exhibit No.	Page No.

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11. Computation of Net Income Per Share.....20

After Recording Return to:

Paul E. Gilbert, Esq.
BEUS, GILBERT & MORRILL, P.L.L.C.
1000 Great American Tower
3200 North Central Avenue
Phoenix, AZ 85012

OFFICIAL RECORDS OF
MARICOPA COUNTY RECORDER
HELEN PURCELL

97-0616640 09/05/97 04:36

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DEVELOPMENT AGREEMENT

This Development Agreement ("Agreement") is made as of the 29 day of August, 1997 by and between the City of Chandler, Arizona, an Arizona municipal corporation (which together with any successor public body or officer hereafter designated by or pursuant to law, is hereafter called "City"), and Microchip Technology Inc., a Delaware corporation (which together with its successors and assigns, is hereafter called "Developer").

RECITALS:

A. The parties hereto acknowledge that this Agreement is intended to be and constitutes a "Development Agreement" as authorized pursuant to Arizona Revised Statutes, ss. 9-500.05, and that, in accordance therewith, a copy of this Development Agreement shall be recorded with the Maricopa County Recorder no later than ten (10) days after entering into this Agreement to give notice to all persons of its existence and of the parties' intent that the burdens of this Agreement are binding on, and the benefits of this Agreement shall inure to, the City and Developer and their respective successors-in-interest and assigns.

B. Developer is the owner of approximately 80 acres of real property depicted on Exhibit A-1 attached hereto and more particularly described on Exhibit A-2 attached hereto (the "Property"), including and adjacent to Developer's corporate headquarters facility at 2355 W. Chandler Boulevard.

C. In furtherance of the City's goal of continued development of the Property as provided for in the General Plan, Developer intends to further develop the Property as an electronics manufacturing facility by adding two additional fabrication buildings, an administrative building, and ancillary structures and equipment (collectively the "Facility").

D. City desires to obtain those public benefits which will accrue from the further development of the Property in accordance with City's General Plan, including, but not limited to creation of jobs, stimulation of economic development in City, construction of infrastructure improvements within the public right-of-way adjacent to the Property, and generation of additional tax revenues to City.

E. Pursuant to Arizona Revised Statutes ss. 9-500.11, City is authorized and empowered to make economic development expenditures of the type expressly provided for in this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, it is understood and agreed by the parties hereto as follows:

1. RECITALS. The recitals set forth above are acknowledged by the parties to be true and correct and are incorporated herein by this reference.

2. ON-SITE IMPROVEMENTS BY DEVELOPER.

2.1. The Facility. Developer shall construct and equip the Facility in general conformity with the preliminary site plans previously submitted to the City and in accordance with final site plans to be approved by the City in general conformity with the approved preliminary site plans, including buildings, parking lots, landscaping, signs, and all on-site utilities including but not limited to the on-site roads built to present city standards for private roads. Developer shall also construct at its expense water and sewer mains within the Property boundaries which are necessary to serve the Property, as approved by the City Engineer. The Facility will include construction of: "Fab 3," an approximate 115,000 square foot manufacturing facility, containing approximately 50,000 square feet of clean room, equipment for 8-inch wafer manufacturing, and ancillary space for manufacturing support systems; construction of a four story, approximately 200,000 square foot office building; and, at the sole option of Developer, conversion of one existing building into a wafer testing facility.

2.2. Fees and Taxes. Developer shall pay all required fees for plan check, building permit, engineering review, recording, impact/system development, and all local sales taxes applicable to construction of the on-site improvements described in Section 2.1.

2.3. Presently Anticipated Timing of Construction. Developer

shall Commence Construction of: (a) the Fab 3 building on or before the later of June 15, 1999, or the date Developer is granted foreign trade subzone status as required in section 7 and (b) the office building on or before July 1, 1998, or, in either case, such later date as business conditions may reasonably require. Once construction has begun on any such facility, Developer shall use reasonable, good faith efforts to complete such construction in a continuous manner. For purposes of this Agreement, "Commence Construction" or "Commencement of Construction" shall be the date of commencement of work on foundation for the applicable improvements while securing all permits required under the City's Construction Code from the City's Building Department, as evidenced by the City's first inspection and approval for foundation work. Developer presently intends for construction of Fab 3 to be completed by within twenty-five (25) months of the date of the Commencement of Construction, but no commitment to that effect is given.

2.4. Presently Anticipated Cost and Employment. The Facility will be constructed at a total cost of approximately $450 million and, at full capacity, will employ approximately 1,000 workers at an expected average wage of approximately $49,000 per year.

3. TRAFFIC STUDY. Developer has prepared and submitted to the City a traffic impact analysis to determine improvements needed to maintain acceptable levels of service through the year 2010 at level of service "D." City acknowledges that the traffic study provided by Developer is acceptable to it and will form the basis for the traffic improvements provided for herein, subject to the current proposal for construction of only one Fab unit.

4. DEDICATION OF CERTAIN PROPERTY BY DEVELOPER. Developer shall at no cost to the City cause the following described parcels to be dedicated and conveyed to the City by assignment, special warranty deed, or other instrument legally sufficient to convey and dedicate to the City all right, title and interest of Developer in and to such parcels, free and clear of all liens, encumbrances, covenants, conditions and restrictions:

4.1. Traffic Right of Way. Right-of-way no more extensive than necessary to permit the construction of required street and off-site improvements specified in the traffic impact analysis referred to in Section 3.

4.2. Well and Storage Facilities. If City chooses to drill wells or locate a storage facility on the Property in order to satisfy its obligations under Section 6.4, Developer shall dedicate up to five (5) acres of the Property for water well and/or storage facilities. The exact size, and location, of such dedication shall be as mutually agreed by City and Developer, and shall be configured so as to minimize the land requirement to the extent reasonably possible and to accommodate construction of the Facilities as planned. Developer shall make the land described herein available to City within sixty (60) days after the Developer provides City with the notice that it is proceeding with Fab 3. Developer shall provide up to five (5) acres if City needs the land for both the well and storage. If City needs the land for a well only, one (1) acre shall be provided.

5. CITY APPROVAL PROCESSES.

5.1. Scope of Development. Developer's Facility plans set forth a conceptual land use and density on the Property. Developer and City shall work together using best efforts throughout the legally required planning process to obtain expedited approvals.

5.2. Facility Approval. The approval by City of this Agreement constitutes affirmative representation by City, on which Developer is entitled to rely, that Developer, notwithstanding subsequent changes of the zoning or land use controls applicable to the Property after the date of this Agreement, or after the date of any amendments to this Agreement, or zoning on this Property are approved, (1) shall be authorized to implement the uses, density and intensity, set forth for the Facility, and (2) will be accorded through the legally required planning process the approvals reasonably necessary to permit Developer to proceed with and implement the proposed improvements, including any amendments thereto, subject to City's customary

standards for review and approval of site plans and architectural plans, including expedited design review pursuant to Sections 5.3 through 5.7. Developer and City shall work together using best efforts throughout the planning stages to resolve any City comments regarding the proposed development, provided, however, that if Developer believes at any stage that it has reached an impasse regarding any issue with City's staff, such dispute shall be resolved in accordance with the dispute resolution provisions of Section 5.8.

5.3. Diligence in Review and Process. In connection with the proposed development and the issuance of building permits, construction inspections, and the issuance of the Certificates of Occupancy, City agrees to accelerate all approvals, inspections and permitting processes to the greatest extent possible. City will not impose any unusual or extraordinary plan or design review requirements. The fast-tracking and priority scheduling program will take into account, among other things, the magnitude and scope of the Facility, mixed use and phasing consideration, construction document review,

permitting, inspection, and City approval matters.

5.4. Appointment of Representative. In order to expedite decisions by City, City agrees to designate a representative of City to act as a liaison between City and Developer, and between City's various departments and Developer. City's representative shall be available at all reasonable times to serve as such liaison in order to ensure expedited review and approval of all permits, plans, specifications, plats, and/or any other development submittals, project drawing revisions, or approvals for the Property and the Facility, it being the intention of this paragraph to provide Developer with one individual utilized consistently as City's principal representative. Developer shall also designate a Developer representative who shall serve as a liaison between the Developer and City. The initial City representative shall be the Planning & Development Director and the initial Developer representatives shall be Robert J. Lloyd, or other persons designated by Developer.

5.5. Expedited Building Permit Process with on-site Inspector. City will provide at its sole expense an expedited building permit process with plan review, inspection, and approval conducted at the Property by an on-site inspector empowered by City to make decisions without further review processes to meet the need of Developer's expansion. The on-site review process shall be provided for a maximum of twenty-five (25) months from commencement of construction on Fab 3. If Developer wishes the building permit process to be expedited further than it is expedited by one on-site inspector, Developer will pay the cost of additional on-site personnel.

5.6. Certificates of Occupancy. City agrees that promptly upon completion of each building of the Facility and at such time as a building is in compliance with applicable City Codes and ordinances, City will provide Developer (or the owner of such building) with a Certificate of Occupancy for such building. Upon substantial compliance with applicable City codes and ordinances, City will provide Developer with a temporary certificate of occupancy for the limited purpose of testing equipment within the building. If City fails or refuses to provide a Certificate of Occupancy for any portion of the Facility when requested, City shall, within four (4) business days after written request from Developer, provide Developer a written statement indicating in adequate detail how they failed to satisfy the conditions for issuance of the

Certificate of Occupancy and what measures or acts City requires before City will issue the Certificate of Occupancy. City shall not withhold approval without good and substantial reason.

5.7. Subdivision Requirements. The parties acknowledge and agree that in connection with the development of the Property, developer will need to combine some of the parcels which currently comprise the Property. City and Developer agree to mutually cooperate with each other to effectuate this combining of parcels which will most likely result in a two lot subdivision. City agrees that it will expedite any and all such approvals and further agrees that it will approve any subdivision request reasonably required in conjunction with the development of the Property, subject only to the Property as subdivided, complying with applicable zoning, health and safety ordinances.

5.8. Resolution of Disputes. City and Developer agree Developer must be able to proceed rapidly with the proposed development. Accordingly, an expedited City review process is essential. Accordingly, the parties agree that if at any time Developer believes that an impasse has been reached with City or an unreasonable delay affecting the proposed development or issuance of a certificate of occupancy, Developer shall have the right to immediately appeal to the City representative for an expedited decision pursuant to this paragraph. If the issue on which an impasse or delay has been reached is an issue on which a final decision can be reached by City staff, the City representative shall give Developer a final decision within two (2) business days after the request for an expedited decision is made. If the issue on which an impasse or delay has been reached is one where a decision requires City Council action, the City representative shall be responsible for scheduling a City Council hearing on the issue which hearing shall be held within two (2) weeks after the request for an expedited decision is made by Developer. If an impasse or delay still exists thirty (30) calendar days after Developer's request for an expedited decision, Developer shall proceed under Article 15 and may immediately cease all activities in connection with construction of the Facility. Developer acknowledges City may not be able to comply with this schedule requiring City Council hearings during the months of December and August. City will, however, use its best efforts in complying as completely as possible during these months.

6. CITY PROVISION OF TRANSPORTATION AND TRAFFIC IMPROVEMENTS; WATER, AND SEWER.

6.1. Transportation Improvements. Upon Developer's giving of the notice specified in Section 6.6, City shall design and construct four (4) enumerated street improvement projects identified on Exhibit "B" hereto. Developer shall be responsible for no more than $238,275 (based on present estimates) of the cost of constructing these transportation improvements. The City shall be responsible for all costs of the transportation improvements beyond $238,275 (based on present estimates). The foregoing figures shall be

adjusted proportionately based on the final construction costs using a ratio of $238,275 (Developer) to $696,000 total. Such construction shall include at a minimum the following items: subgrade preparation and pregrading; paving; curb and gutter on all permanent edges of the streets; driveways; bus bay(s); parkway grading; adjustment of manholes; adjustment of water valves;

survey monuments; catch basins; storm sewer laterals; street lights, street light trenching; and landscaping and irrigation systems.

Concurrently with, or as soon as possible following Developer's notice under Section 6.6, City shall provide Developer with a projected time line for solicitation of bids for such improvements, awarding of contracts and commencement of construction, provided that subject to the City having received notice 25 months prior to the estimated completion date, such time line shall in no event extend the estimated completion dates set forth in Section 2.3, inasmuch as such improvements are necessary for the timely completion and commencement of operation of Fab 3 and its related improvements and Developer will be materially adversely affected by any delay in completion of such improvements. City shall periodically, and in no event less frequently than every 60 days, provide Developer with a progress report in respect of such improvements as well as current information concerning the expected costs of constructing the same.

City shall use its best efforts to obtain Economic Strength Fund grants from the State of Arizona in the approximate amount of $696,000 to cover the cost of off-site improvements described in this Article, and Developer shall cooperate with City is seeking those grants. Developer shall provide $25,113 toward the match funds required for the Economic Strength Funds and City shall provide all the balance of required match funds. If such grants are not received, the City shall still be obligated to construct, subject to Developer contribution pursuant to paragraph 6.1, the improvements referred to in this Article 6. If such grants are received, they shall all be used by the City to construct the transportation improvements described in section 6.1, and the traffic improvements described in section 6.2. The first $238,279 received shall be credit against, and shall be deemed to satisfy, Developer's obligation to bear a portion of the cost of the transportation improvements described in this section.

6.2. Construction Water Supply. The City shall provide access to an existing fire hydrant adjacent to the Property along Chandler Boulevard, Ellis Street or Frye Road on or before the date Developer commences grading and devegetation activities at the Property, for Fab 3. Developer shall establish a construction water account with the City Development Services Department, install the requisite fire hydrant meter, and pay all charges for water used during construction in accordance with City Code.

6.3. Operations Water Supply. City shall provide Developer with a one (1) million gallon per day additional groundwater supply of Acceptable Quality (the "Additional Water Supply") through one well to which the Facility shall have priority use to the full extent of the Additional Water Supply, and, when the Additional Water Supply well is temporarily down or otherwise inoperable, through additional well(s) (the "Backup Water Supply"). Ground water shall be of Acceptable Quality only if the following standards are met: (1) total organic carbon ("TOC") content shall be less than or equal to three (3) parts per million; and (2) the ground water shall meet the City's presently existing primary drinking water standard.

6.4. Additional Water Supply. The Additional Water Supply shall be made available to Developer prior to its completion of Fab 3. The City will buy wells from a third

party or drill on the Property any new wells required to fulfill the City's obligation under this Section 6.4. If the City chooses to purchase an existing well from a third party, the City shall construct at its sole expense all lines, pumps, and other facilities required to deliver the Additional Water Supply to the Property lines, including but not limited to any water mains or other lines in the public right of way of groundwater of acceptable quality. In all events, City shall reserve in its water supply system at all times after commencement of construction of Fab 3, the amount of capacity required to deliver the Additional Water Supply described in this Section 6. The Additional Water Supply shall be at the City's sole expense except: (a) the buy-in fees provided in Section 6.7; and (b) the payments for water actually delivered as hereinafter provided. Developer will be responsible for on-site water main construction. Developer will pay for water delivered by the City to the Property at rates not less favorable than the rates then being charged by the City to any other industrial user. No take or pay agreement will be required from Developer. In all events, City shall reserve in its water supply one and one-half (1-1/2) million gallons per day of groundwater either through the Additional Water Supply or the Backup Water Supply hereinafter described.

6.4.1. Backup Water Supply. The City shall make the Backup Water Supply through ground water of Acceptable Quality available to Developer prior to its completion of Fab 3. The City's provision of the Backup Water Supply shall be on the following additional terms and conditions. The City shall use its best efforts to locate, drill, and equip, an additional backup

dedicated well on the Property, and shall consult fully with Developer on a regular basis and fully inform Developer on the feasibility of drilling the Backup well on the Property and any and all other options that are available for location of the Backup well. Developer shall have the highest priority to use of the groundwater from said well to the extent necessary for the Backup Water Supply. If the well is so located on the Property by the City, the Backup Water Supply shall be at the City's sole expense except: (a) the buy-in fees provided in section 6.7; and (b) the payments for water actually delivered as hereinafter provided; and (c) Developer's connection costs.

6.4.2. Off-Property Backup Water Supply. If, notwithstanding its best efforts under Section 6.4.1, the City is unable to locate the Backup Water Supply on the Property, then the City shall purchase an existing well located off the Property from a third party or drill a new well located off the Property. The City shall consult fully with Developer on a regular basis and fully inform Developer of all options that are possible for location of the Backup well off-Property. The City shall use its best efforts to locate the off-property Backup well so that the actual cost of construction of transmission lines and delivery facilities to the Property does not exceed $1,000,000. If, after consultation, City and Developer mutually agree that the Backup well cannot be located so that the total cost of the transmission lines and delivery system to the Property does not exceed $1,000,000, then Developer shall notify the City either: (1) that the Developer will agree to increase the reimbursement amount provided below to the full amount of the cost of transmission lines and delivery facilities; or (2) that the Developer will waive the requirement for a Backup well and will accept for the Backup Water Supply only, water from the City's public water system which meets the City's present primary drinking water standard. City agrees to proceed on the basis of whichever of the two elections Developer makes. Developer shall have the highest priority to use of the groundwater from said well to

the extent necessary for the Backup Water Supply. In the case of any such well located off the Property, the City shall construct at its sole expense all lines, pumps, and other facilities required to deliver the Backup Water Supply to the Property line, including but not limited to any water mains or other lines in the public right of way. If it is necessary for the City to proceed under this Section 6.4.2, then Developer and City shall work together to arrive at a mutually agreeable arrangement under which Developer shall reimburse the City for the actual cost of construction of such transmission lines and delivery facilities, but not to exceed $1,000,000 (unless pursuant to an election by Developer as set forth above), either in a lump sum cash reimbursement or a surcharge on the Developer's price for delivered water over a period of time, as the parties may determine by mutual agreement.

6.4.3. On-Site Construction. Developer will be responsible for all on-site water main construction.

6.4.4. Payment. Developer will pay for water delivered by the City to the Property at rates not less favorable than the rates then being charged by the City to any other industrial user, except as may otherwise be agreed pursuant to the last sentence of Section 6.4.2. No take or pay agreement will be required from Developer.

6.4.5. Total Water Supply 1.5 Million Gallons Per Day. City acknowledges that Developer plans to continue the operation of its current original facility for five or more years and that the water requirements set forth in this paragraph 6 reference an additional water commitment for the Facility. Therefore, while Developer operates both the existing facility and the Facility, it will require a total combined water commitment of 1.5 million gallons per day. City agrees to provide Developer with a total water capacity of 1.5 million gallons per day from groundwater of Acceptable Quality at such time and while both the current facility and the Facility are operating.

6.5. Sewer. City shall provide Developer with an 800,000 gallons per day additional sewer capacity for Fab 3. City shall reserve in its sewer disposal system at all times after completion of construction of Fab 3 the amount of capacity required to deliver the additional sewer capacity described in the first sentence of this Section 6.5. Trunk line facilities are currently in place and appear to be adequate, but City shall be obligated to augment such facilities if they prove to be inadequate, by constructing at its sole expense all mains, lines, and other facilities necessary to accept or accommodate the additional 800,000 gallons per day sewer flow or effluent from Fab 3 and related improvements. No up-front or other additional fees or costs shall be imposed on Developer with respect to the additional sewer capacity provided for herein except the buy-in fees set forth in section 6.7. Developer will be responsible for on-site sewer main construction and connection to the city line. The City shall be responsible for all costs necessary to bring the sewer line adjacent to the portion of the Property where the first construction will take place. Developer shall be responsible for connection to the sewer line in Ellis Street and for all on-site construction costs. The additional sewer capacity shall be at the City's sole expense except the payments for normal sewer usage fees as hereinafter provided. Developer will pay for ongoing sewage service to the Property at rates not less favorable than

the rates then being charged by the City to any other industrial user. No take

or pay agreement will be required from Developer.

6.6. Construction Timing. Developer shall give City written notice at least thirty (30) days before commencement of construction of Fab 3 of Developer's intention to commence construction and of the Developer's best estimate of when such construction will be completed. City shall cause all improvements described in this Article 6 required for Phase One of the Facility to be constructed at least two months prior to the projected completion of construction of Fab 3. City shall not commence construction of any of the improvements described in this Article 6 necessary for Fab 3 until after Developer has given the notice specified in this section 6.6. Concurrently with, or as soon as possible following Developer's notice under this Section 6.6, City shall provide Developer with a projected time line for solicitation of bids for all improvements required under Sections 6.1, 6.3, 6.4, and 6.5, awarding of contracts therefor, and commencement of construction, provided that subject to the City having received notice 25 months prior to the estimated completion date, such time line shall in no event extend the estimated completion dates set forth in Section 2.3, inasmuch as such improvements are necessary for the timely completion and commencement of operation of Fab 3 and its related improvements and Developer will be materially adversely affected by any delay in completion of such improvements. City shall periodically, and in no event less frequently than every 60 days, provide Developer with a progress report in respect of such improvements as well as current information concerning the expected costs of constructing the same.

6.7. Buy-in and Development Fees. Developer agrees to pay water and sewer buy-in fees and development fees for the Facility. Based upon the preliminary plans submitted to the City, and projected number and size of meters shown on Exhibit C, it is estimated that these Fab 3 charges will total $255,146. When the final plans for this project are submitted to the City, these fees might be adjusted; but they shall not materially exceed the estimate set forth above unless the project area increases or the number or size of requested meters change. Developer acknowledges that there is the potential for yearly increases in fees for all users of an applicable size meter and any such increase for all users shall not be considered a material increase.

7. FOREIGN TRADE ZONE TAXATION

7.1. Foreign-Trade Subzone Application. The City shall use its best efforts to cause City of Phoenix to sponsor an application to the Foreign-Trade Zones Board of the U.S. Commerce Department ("Board") for issuance of a grant of authority for a special purpose foreign-trade subzone ("Subzone") to be operated by Developer within the Property pursuant to the following procedure:

7.1.1. Application. Developer shall prepare a Subzone application ("Application") at its sole cost and expense.

7.1.2. Subzone Operations Agreement. Prior to requesting activation of the Subzone, the City of Phoenix and Developer shall execute a Foreign-Trade Subzone

Operations Agreement (the "Operations Agreement") permitting Developer to utilize the Subzone as a foreign-trade subzone, subject to the terms and conditions of the Operations Agreement, for an initial period equal to the maximum period allowed by law, thereafter to be automatically extended from year to year unless terminated by the terms thereof. The Operations Agreement shall acknowledge the provisions of Section 7.1.3. The Operations Agreement shall require Developer to remain in compliance with the property tax classification limitations set forth in Section 7.3. It is specifically understood that in the event Federal Trade Subzone status is not achieved as provided in Sections 9 and 12.5, Developer shall have an absolute right to unilaterally cancel this Agreement and in such event there shall be no further obligation or liability to City under this Agreement other than payment of City's costs as provided in Section 13.1.

7.1.3. City Standing. Developer acknowledges that breach of its property tax class limitations set forth in this Article 7 would be detrimental to the public interest and that Chandler would be a party "directly affected" (as that term is used in 15 CFR Part 400). Developer will not object to the City's standing before the Foreign Trade Zones Board or any other administrative body or court, in the event the City seeks to show that Developer's use of the subzone is not in the public interest and, as a consequence thereof, seeks to terminate the grant of the subzone, or otherwise limit or terminate Developer's use of the subzone.

7.1.4. City Concurrence. The City will execute a letter of concurrence prior to activation of the Subzone by the U.S. Customs Service upon receipt of a written request therefor from Developer (which request may occur before commencement of construction or before completion of construction of the Facility), and shall use all reasonable efforts to assist in achieving the Foreign Trade Subzone status and the Operations Agreement with the City of Phoenix, provided that no Developer Performance Default shall have occurred and be continuing.

7.2. Tax Classifications. Arizona Revised Statutes ss. 42-162(A)(8)(b) provides that all real and personal property within the boundaries of a Foreign Trade Zone or subzone shall be classified as Class 8 property for taxation ("Class 8"); provided, however, such classification applies only to the area that is activated for Foreign Trade Zone use by the Port Director of the U.S. Customs Service, pursuant to 19 C.F.R. 146.6, A.R.S. ss. 42-162.01, and the procedures of the Maricopa County Assessor (the "Assessor") require that the owner notify the Assessor that a reclassification of property to Class 8 should be made.

7.3. Developer Limitation. Notwithstanding that the entire Property and Facility shall receive Foreign Trade Zone status, Developer agrees that only the following portions of the Property and Facility shall receive Class 8 property tax classification: (a) The Fab 3 Building, all land underlying that building and the parking and landscaped areas associated with that building, and all personal property used in connection with that building; and (b) the presently existing building if and when it is converted into a wafer testing facility, all land underlying it and the parking and landscaped areas associated with it, and all personal property used in connection with it. Exhibit D hereto designates the approximate locations of the Class 8 land and buildings within the Property.

7.4. Minimum Property Tax Amounts.

7.4.1. From and after Year 1. Developer has projected that the value of all real and personal property comprising the Property and the Facility will be far in excess of normal industrial property. Therefore, Developer agrees that if in the following years, the total City property taxes on all real and personal property comprising the Property and the Facility is less than the minimum amount indicated, Developer will pay the shortfall amount to the City.

Year	Minimum City Property Tax Amount
Year 1:	No guaranteed minimum.
Years 2-6:	$225,000
Years 7-8:	$200,000
Years 9-11:	$150,000

For purposes of this Section 7.4, "Year 1" shall mean the first full calendar year that Fab 3 is fabricating products. In any year in which there is a fifteen percent (15%) reduction to Developer's segment of the electronics manufacturing market, Developer may provide reasonable evidence of such to the City Council and Developer shall be relieved of the requirements of this section 7.4.

7.4.2. Prior to Year 1. Because activation of the Foreign Trade Subzone may occur prior to commencement or completion of construction of the Facility, Developer agrees that if, solely as a result of activation of the Foreign Trade Subzone, the City property taxes due for any tax year prior to Year 1 on all real and personal property comprising the Property and the Facility are less than what the City property taxes on all real and personal property comprising the Property and the Facility would have been but for early activation of the Foreign Trade Subzone, Developer shall pay to City the shortfall amount.

7.5. Foreign Trade Zone Costs. Developer shall pay all costs charged by the City of Phoenix for the formation and oversight of the special purpose foreign trade subzone of the Phoenix Foreign-Trade Zone No. 75 discussed later in the Agreement. Developer's written approval shall be required for City to enter into an agreement with City of Phoenix regarding any such costs.

8. STATE FUNDING. Developer and City may be eligible for state funding for various aspects of the Facility and its operations. Developer and City shall use their best efforts to cooperate in identifying all possible sources of state funding, including but not limited to training grants and economic strength grants, and in applying for and obtaining the benefit of such state funding for the Facility and its operations.

9. CONDITIONS TO DEVELOPER'S OBLIGATIONS. Developer's obligations under this Agreement are subject to satisfaction of all of the following conditions precedent:

9.1. Zoning. The City represents and warrants that the Property has been properly classified for I-1 zoning pursuant to the City of Chandler zoning ordinance. City agrees that no other action is necessary in order to place the I-1 zoning on the Property. City further agrees that it will take no action to remove or change the I-1 zoning within five (5) years and that any action to remove or change the zoning after that period will only be done for valid, reasonable land use reasons. City further agrees that upon Developer starting construction of Fab 3, the I-1 zoning on the Property shall be vested.

9.2. Foreign Trade Zone Status. The United States Department of Commerce shall, no later than December 31, 1999, have issued a grant of authority for a special purpose foreign-trade subzone ("Subzone") to be operated

by Developer within the Property pursuant to procedure set forth in Section 7.1.

9.3. Approval of Plans and Specifications. The City shall have given Developer all necessary permits and approvals for the construction of the Facility.

9.4. Property Tax Classification. Developer shall have received an unqualified written acknowledgment from the Maricopa County Assessor's office that all those portions of the Property, the Facility, and all personal property used on the Property specified in Section 7.3 have been and will continue to be classified as Class 8 property.

10. CONDITIONS TO CITY'S OBLIGATIONS. City's obligations under this Agreement are subject to the conditions precedent that the United States Department of Commerce shall, in a timely fashion, have issued a grant of authority for a special purpose foreign-trade subzone ("Subzone") to be operated by Developer within the Site pursuant to procedure set forth in Section 7.1.

11. REPRESENTATIONS

11.1. Developer Representations. Developer represents and warrants that (a) it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, (b) its execution, delivery and performance of this Agreement is duly authorized, (c) that Developer shall execute all documents and take all action necessary to implement and enforce this Development Agreement, (d) that the representations made by Developer in this Development Agreement are truthful to the best of its knowledge and belief, and (e) Developer shall vigorously defend any action brought to contest the validity of this Development Agreement and shall not seek from the City any payments, contributions, costs or attorneys' fees incurred in such defense.

11.2. City Representations. City represents and warrants (a) that its execution, delivery and performance of this Development Agreement has been duly authorized and entered into in compliance with all the ordinances and codes of City, (b) that subject to a court's equitable powers, this Development Agreement is enforceable in accordance with its terms, (c) that City shall execute all documents and take all action necessary to implement and enforce this Development Agreement, (d) that the representations made by City to Developer in this

Development Agreement are truthful to the best of its knowledge and belief, and (e) that City shall vigorously defend any action brought to contest the validity of this Development Agreement and shall not seek from Developer, any contributions, payments, costs, or attorneys fees incurred in such defense.

12. CANCELLATION OF THE FACILITY.

12.1. For Business Reasons. Developer reserves the right in its sole discretion to cancel, delay, or abandon construction of all or any part of the Facility for business reasons as determined by Developer. In the event Developer exercises its rights under this Section 12.1 to delay construction of all or part of the Facility, Developer agrees to reimburse City for City Costs as provided in Article 13.

12.2. Due to Impasse or Delay in Approval Process. Developer reserves the right in its sole discretion to cancel, delay, or abandon construction of all or any part of the Facility if an impasse or unacceptable delay is reached on any matter relating to a City approval under Section 5.8 hereof. In the event Developer exercises its rights under this Section 12.2, Developer shall reimburse City for City Costs as provided in Article 13.

12.3. Failure to Approve Final Site Development Plans. Developer reserves the right to cancel, delay, or abandon construction of all or any part of the Facility if City fails to provide reasonable approval of final plans and specifications by the dates necessary to permit commencement of construction at the times specified in Section 2.3, or any action by City which would otherwise preclude Developer from realizing the land use or intensities specified for the Facility; provided, however, that nothing herein shall preclude City from the reasonable exercise of its normal review and approval processes as agreed to be modified herein; and provided further that City shall not act in an arbitrary or capricious manner. In the event Developer exercises its rights under this Section 12.3, Developer shall have no further liability to City under this Agreement, including but not limited to any obligation to reimburse City Costs as provided in Article 13.

12.4. For City's Performance Default. Developer reserves the right to cancel, delay, or abandon construction of all or any part of the Facility if a City Performance Default (as hereinafter defined) occurs. In the event Developer exercises its rights under this Section 12.4, Developer shall have no further liability to City under this Agreement, including but not limited to any obligation to reimburse City Costs as provided in Article 13.

12.5. For Loss of Class 8 Property Classification. Developer reserves the right to cancel, delay, or abandon construction of all or any part

of the facility at any time if any court decision determines Class 8 to be unconstitutional or invalid in any respect, if a legal challenge to Class 8 is filed and not resolved to Developer's satisfaction, or if any legislative action repeals or adversely modifies the Class 8 assessment ratio. In the event Developer exercises its rights under this Section 12.5, Developer shall have no further liability to City under this Agreement, except its liability for City Costs under Section 13.1.

13. DEVELOPER PAYMENT OF CITY'S COSTS IN CERTAIN EVENTS.

13.1. City Costs. Developer acknowledges that the City will incur certain costs in discharging its obligations under this Agreement. City shall provide Developer with a quarterly report of costs City expects to incur in the next calendar quarter. City agrees to negotiate with Developer in good faith over the timing and amounts of costs proposed to be incurred by the City during the next quarter, in light of then existing business conditions. In the event these negotiations result in actual delays in the City performing its obligations in this Agreement, City shall be given an additional amount of time equal to the delay to perform its obligations herein. Developer agrees to refund the City Costs in the event Developer cancels this Agreement for reasons other than set forth in Section 12.2, 12.3 or 12.4. The amounts required to be reimbursed ("City Costs") shall be determined in accordance with the following rules:

13.1.1. City Costs shall include the actual, out-of-pocket costs to the City in planning, designing, and constructing the infrastructure for the Developer's expansion described in this Agreement and shall include all reasonable out-of-pocket costs of planning and design professionals, and all reasonable costs of labor and materials actually used in constructing the infrastructure required under this Agreement.

13.1.2. City Costs shall not include: (a) any costs for work done or services performed by City employees which were not specifically hired by the City for work limited to this Facility; or (b) the value of any time spent by full-time City employees or the cost of their salaries, wages, or benefits.

13.2. Accounting. On a periodic basis, but no less than once every month, City shall provide Developer with a written itemization of all costs incurred from the inception of the Facility to date. In addition, at any time Developer may request from City a written itemization of such costs, City shall provide such itemization within six working days. In the event Developer disagrees with any cost entry or entries on any itemization, it may provide written objection to City within ten days of receipt, at which time City shall review and respond to the objection within ten working days. If Developer still disagrees with the cost entry being charged to it, the party shall first attempt to resolve the dispute through negotiations up to the level of City Manager and the Developer's Project Manager as provided in Section 5.8.

13.3. Mitigation. Notwithstanding any obligation of Developer to reimburse City Costs, any amount owed by Developer for City Costs shall be reduced or mitigated to the extent City can use such construction either at the time Developer notifies City of cancellation, delay, or abandonment of all or any part of the Facility or within seven (7) years after such notice. If City cannot use such construction within one year, then Developer shall pay City annually, within sixty (60) days of Developer's receipt of an invoice with supporting documentation and calculations, an amount equal to the City's average cost of borrowed funds until such time as City can use such construction, up to a maximum of seven (7) years. In the event that neither party can use any of the constructed items, the parties shall use good faith efforts to arrive at an equitable resolution of the issue.

14. DEFAULTS AND REMEDIES.

14.1. Events Constituting Developer Default. Developer shall be deemed to be in default under this Agreement (a "Developer Performance Default") if (a) Developer commits a material breach of any obligation required to be performed by Developer herein, and (b) such breach continues for a period of one hundred twenty (120) days after written notice thereof by City, Developer fails to commence the cure of such breach and, thereafter, to diligently pursue the same to completion.

14.2. Remedies to City. In the event of a Developer Performance Default, which default is not cured within any applicable cure period, City shall have the right to seek and obtain all legal and equitable remedies otherwise available to it.

14.3. Events of Default by City. City shall be deemed to be in default under this Agreement (a "City Performance Default") if (a) City commits a material breach of any obligation required to be performed by City herein, including, without limitation, (i) the failure to issue a Certificate of Occupancy where Developer has complied with its obligations for issuance of such Certificate; or (ii) the failure to provide other approvals as required herein, and such breach continues for a period of thirty (30) days after written notice by Developer.

14.4. Remedies of Developer. In the event City is in default herein, Developer shall have all legal and equitable remedies available to it.

15. FORCE MAJEURE. In addition to specific provisions of this Agreement, performance by Developer hereunder shall not be deemed to be a default where delays or inability to perform are due to war, insurrection, strikes, lockouts, riots, floods, earthquake, fires, casualties, acts of God, acts of the public enemy, epidemics, quarantine restriction, freight embargoes, lack of transportation, governmental restrictions or priority, litigation, unusually severe weather, inability (when the party which is unable to perform is substantially without fault) of any contractor, subcontractor or supplier to perform acts of the other party, or acts or the failure to act, of any utility, public or governmental agent or entity, litigation relating to the Facility initiated by a party other than Developer beyond the control or without the fault of Developer. In the event that Developer is unable to perform due to an event constituting force majeure as provided for above, and such excused delay is the proximate cause of City being unable to perform in accordance with the terms of this Agreement, then the time for performance of City shall be extended for a period of time equal to the period of the delay. An extension of time for any such cause shall only be for the period of the enforced delay, which period shall commence to run from the time City is notified by Developer in writing of the commencement of the cause. If such force majeure adversely impacts the economic viability of the Facility (in Developer's sole discretion), Developer shall have the right, if applicable, to stop or delay construction. In such event, Developer shall reimburse City for City Costs as provided in Article 13.

16. MISCELLANEOUS

16.1. Notices. Unless otherwise specifically provided herein, all notices, demands or other communication is given hereunder shall be in writing and shall be deemed to have been duly delivered upon personal delivery or confirmed facsimile transmission, or as of the second business day after mailing by United States mail, postage prepaid, by certified mail, returns receipt requested, addressed as follows:

To Developer:
Microchip Technology Inc.
Attn: Steve Sanghi
Robert J. Lloyd
Mary Simmons-Mothershed
2355 W. Chandler Blvd.
Chandler, Arizona 85226
Facsimile No. (602) 917-4163

Copy to:

Paul E. Gilbert, Esq.
BEUS, GILBERT & MORRILL, P.L.L.C.
3200 North Central Avenue
1000 Great American Tower
Phoenix, AZ 85012-2417
Facsimile No. (602) 234-5983

To City:
City Manager
City of Chandler
25 S. Arizona Place, #301
Chandler, Arizona 85225
Facsimile No. (602) 786-2209

Copy to:

City Attorney
City of Chandler
25 S. Arizona Place, #304
Chandler, Arizona 85225
Facsimile No. (602) 786-2240

Notice of address may be changed by either party by giving written notice to the other party as provided herein.

16.2. Amendments. This Agreement may be amended only by a written agreement fully executed by the parties hereto.

16.3. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Arizona. This Agreement shall be deemed made and entered into in Maricopa County.

16.4. Waiver. No waiver by either party of a breach of any of the terms, covenants or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition herein contained.

16.5. Severability. In the event that any phrase, clause, sentence, paragraph, section, article or other portion of this Agreement shall become illegal, null or void or against public policy, for any reason, or shall

be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remaining portions of this Agreement shall not be affected thereby and shall remain in force and effect to the fullest extent permissible by law, provided that the fundamental purposes of this Development Agreement are not defeated by such severability. For the Developer, the fundamental purposes of this Development Agreement include, but are not limited to, obtaining Class 8 property tax treatment as presently in effect, as provided in Section 7.2 and all provisions of Articles 5, 6, and 7 hereof.

16.6. Exhibits. All exhibits attached hereto are incorporated herein by reference as though fully set forth herein. The exhibits are as follows:

Exhibit "A-1"	Preliminary Site Plan of the Property
Exhibit "A-2"	Legal Description of the Property
Exhibit "B"	Street Improvement Projects
Exhibit "C"	Projected Number and Size of Water Meters
Exhibit "D"	Approximate Locations of Class 8 Land and Buildings

16.7. Entire Agreement. This Agreement and the exhibits hereto constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and all prior and contemporaneous agreements, representations, negotiations and understandings of the parties hereto, oral or written, are hereby superseded and merged herein.

16.8. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall constitute one and the same instrument.

16.9. Consents and Approvals. City and Developer shall at all times act reasonably and in good faith with respect to any and all matters which require either party to review, consent or approve any act or matter hereunder.

16.10. Mutual Benefits. The City and Developer agree that in making the promises contained in this Development Agreement that certain benefits and advantages will accrue to both parties as a result of the performance of this Agreement, and that therefore this Agreement is being entered into in reliance upon the actual benefits afforded each of the parties.

16.11. Conflict of Interest. No member, official or employee of the City may have any direct or indirect interest in this Development Agreement, nor participate in any decision relating to the Development Agreement which is prohibited by law. All parties hereto acknowledged that this Agreement is subject to cancellation pursuant to the provisions of Arizona Revised Statute ss. 38-511.

16.12. Warranty Against Payment of Consideration for Agreement. Developer warrants that it has not paid or given, and will not pay or give, any third person any money or other consideration for obtaining this Development Agreement, other than normal costs of conducting business and costs of professional services such as architects, consultants, engineers and attorneys.

16.13. Enforcement by Either Party. This Agreement shall be enforceable by any party hereto notwithstanding any change hereafter in any applicable General Plan, specific plan, zoning ordinance, subdivision ordinance or building ordinance adopted by City which substantially changes, alters or amends the applicability of said plans or ordinances to the development of the Facility or the Property.

16.14. Cumulative Remedies. Except as otherwise expressly stated in this Agreement, the rights and remedies of the parties are cumulative, and the exercise by any party of one or more of such rights or remedies will not preclude the exercise by it, at the same time or different times, of any other rights or remedies for the same default or any other default by such defaulting party. The provision of this Section 16.14 are not intended to modify Article 14 or any other provisions of this Agreement and are not intended to provide additional remedies not otherwise permitted by law.

16.15. Attorneys' Fees. In any arbitration, quasi judicial or administrative proceedings or any other action in any court of competent jurisdiction, brought by either party to enforce any covenant or any of such party's rights or remedies under this Agreement, including any action for declaratory or equitable relief, the prevailing party shall be entitled to reasonable attorneys' fees and all reasonable costs, expenses and disbursements in connection with such action.

16.16. Successors. This Agreement shall be binding upon, and shall inure to the benefit of the parties hereto and their successors and assigns.

16.17. No Third Party Beneficiaries. This Agreement is made and entered into for the sole protection and benefit of the parties. No person other than the parties shall have any right of action based upon any provision of this Agreement.

16.18. Recordation. Simultaneously with the execution of this Development Agreement, Developer and City will record a copy of this Development Agreement in the records of the Maricopa County Recorder. Any written amendment hereto shall be similarly recorded within ten days after execution by the parties.

IN WITNESS WHEREOF, City has caused this Agreement to be duly executed in its name and behalf by its Mayor and its seal to be hereunto duly affixed and attested by its City Clerk, and Developer has signed and sealed the same, on or as of the day and year first above written.

CITY OF CHANDLER, ARIZONA, an Arizona municipal corporation

ATTEST:

By:/s/ Carolyn Dixon 7/2/97
CITY CLERK

/s/ Jay Tibshraeny
MAYOR

[SEAL]
CITY OF CHANDLER
ARIZONA
CORPORATED

APPROVED AS TO FORM:

/s/ Dennis M. O'Neill
CHANDLER CITY ATTORNEY

MICROCHIP TECHNOLOGY INC., a Delaware corporation

By: /s/ Steve Sanghi
Its: PRESIDENT, CEO and Chairman of the Board

STATE OF ARIZONA)
)
County of Maricopa)

The foregoing Development Agreement was acknowledged before me this 29 day of August, 1997, by Mayor Jay Tibshraeny, May of the City of Chandler, Arizona, an Arizona municipal corporation, on behalf of the corporation.

My Commission Expires:

Sept. 30, 1998

/s/ Jacquelin A. Rensel
Notary Public

OFFICIAL SEAL
JACQUELIN A. RENSEL
Notary Republic - State of Arizona
MARICOPA COUNTY
My Commission Expires Sept. 30, 1998

STATE OF ARIZONA)
)
County of Maricopa)

The foregoing Development Agreement was acknowledged before me this 30 day of September, 1997, by Steve Sanghi, the President & CEO of Microchip Technology Inc., a Delaware corporation, on behalf of the corporation.

My Commission Expires:

"OFFICIAL SEAL"
Dianne Iverson
Notary Public - Arizona
Maricopa County
My Commission Expires 4/25/98

/s/ Dianne Iverson
Notary Public

[PRELIMINARY SITE PLAN OF THE PROPERTY]

EXHIBIT A-1

[LOGO] BRADY * AULERICH & ASSOCIATIONS, INC. Dennis H. Brady, P.L.S.
Civil Engineering * Land Surveying C.E. Aulerich, P.L.S.
Construction Staking Robert N. Hermon, P.E./P.L.S.

LEGAL DESCRIPTION: MICROCHIP PROPERTY - 2355 WEST CHANDLER BLVD.
CHANDLER, ARIZONA

The West half of the Northeast quarter of Section 31, Township 1 South, Range 5 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona;

EXCEPT dedicated public road rights-of-way along the North, South, East and West sides thereof, as specified in records of Maricopa County, Arizona.

Described property being in and forming a part of the City of Chandler, Maricopa County, Arizona and comprising an area of 80 acres more or less (inclusive of said rights-of-way).

/s/ Robert N. Hermon

REGISTERED LAND SURVEYOR
ARIZONA, U.S.A.
CERTIFICATE NO.
16836
ROBERT N. HERMON
Date signed 8/26/97

EXHIBIT A-2

<TABLE>
<CAPTION>

MICROCHIP TECHNOLOGY, INC. - CHANDLER FACILITY
Mitigation of Site Development Impacts on Arterial Streets

Location	Description of Improvements	Cost	Microchip Proportion	Microchip Share
<S>	<C>	<C>	<C>	<C>
Chandler Boulevard/Ellis Street	Install traffic signal	$100,000	0.38	$ 37,844
Chandler Boulevard/Ellis Street	Construct right turn on eastbound approach	$ 42,000	0.58	$ 24,203
Chandler Boulevard/Dobson Road	Provide dual left turn on eastbound and westbound approaches	$388,000	0.20	$ 77,665
Dobson Road/Frye Road	Construct right turn on southbound approach	$166,000	0.59	$ 98,563
Totals		$696,000		$238.275

</TABLE>

Exhibit B
EXHIBIT "C"

PROJECTED NUMBER AND SIZE OF WATER METERS

Based on an additional 1,000,000 gallon per day requirement, the following is needed:

1 -- 6" turbine meter

[APPROXIMATE LOCATIONS OF CLASS 8 LAND AND BUILDINGS]

Exhibit D

After Recording Return to:

Paul E. Gilbert, Esq.
BEUS, GILBERT & MORRILL, P.L.L.C.
1000 Great American Tower
3200 North Central Avenue
Phoenix, AZ 85012

OFFICIAL RECORDS OF
MARICOPA COUNTY RECORDER
HELEN PURCELL

97-0497273 07/24/97 10:21

- ---

DEVELOPMENT AGREEMENT

C97-141

This Development Agreement ("Agreement") is made as of the 17th day of July, 1997 by and between the City of Tempe, Arizona, an Arizona municipal corporation (which together with any successor public body or officer hereafter designated by or pursuant to law, is hereafter called "City"), and Microchip Technology Inc., a Delaware corporation (which together with its successors and assigns, is hereafter called "Developer").

RECITALS:

A. The parties hereto acknowledge that this Agreement is intended to be and constitutes a "Development Agreement" as authorized pursuant to Arizona Revised Statutes, ss. 9-500.05, and that, in accordance therewith, a copy of this Development Agreement shall be recorded with the Maricopa County Recorder no later than ten (10) days after entering into this Agreement to give notice to all persons of its existence and of the parties' intent that the burdens of this Agreement are binding on, and the benefits of this Agreement shall inure to, the City and Developer and their respective successors-in-interest and assigns.

B. Exhibits A-1 A-2 attached hereto are provided for geographic reference. Exhibit A-1 is an area map which depicts northwest Tempe where the property is situated. Exhibit A-2 is a local area map which depicts the Hohokam Industrial Park in which the property is more specifically situated.

C. Developer is the owner of approximately 18.09 acres of real property at 1200 South 52nd Street, Tempe, Arizona, which is depicted on Exhibit B-1 attached hereto and more particularly described on Exhibit B-2 attached hereto referred to as the "Property".

D. In furtherance of the City's goal of continued development of the Property as provided for in the General Plan, Developer intends to expand its silicon wafer manufacturing facility on the Property.

E. City desires to obtain those public benefits which will accrue from the further development of the Property in accordance with City's General Plan, including, but not limited to creation of jobs, stimulation of economic development in City, and generation of additional tax revenues to City.

F. Pursuant to Arizona Revised Statutes ss. 9-500.11, City is authorized and empowered to make economic development expenditures of the type expressly provided for in this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, it is understood and agreed by the parties hereto as follows:

1. RECITALS. The recitals set forth above are acknowledged by the parties to be true and correct and are incorporated herein by this reference.

2. ON-SITE IMPROVEMENTS BY DEVELOPER.

2.1. The Improvements. Developer shall expand its Tempe Fab II Facility in two phases by adding 35,000 square feet of clean room along with equipment for wafer manufacturing and related support systems (the "Expansion").

2.2. Fees and Taxes. Developer shall pay all required fees for plan check, building permit, engineering review, recording, impact/system development, and all local sales taxes applicable to construction of the on-site improvements described in Section 2.1.

2.3. Presently Anticipated Timing of Construction. Developer commenced the Expansion in January 1997 anticipates completion of Phase One in August 1997 and completion of Phase Two in February 1998.

2.4. Presently Anticipated Cost and Employment. The Expansion will be constructed at a total cost of approximately $137 million and will employ approximately 150 additional workers at an expected average wage of approximately $50,000 per year.

3. CITY APPROVAL PROCESSES.

3.1. Scope of Development. Developer and City shall work together using best efforts throughout the legally required planning process to expeditiously obtain approvals for the Expansion.

3.2. Expansion Approval. The approval by City of this Agreement constitutes affirmative representation by City, on which Developer is entitled to rely, that Developer, notwithstanding subsequent changes of the zoning or land use controls applicable to the Property after the date of this Agreement, or after the date of any amendments to this Agreement, or zoning on the Property are approved, (1) shall be authorized to implement the uses, density and intensity, set forth for the Expansion and (2) will be accorded through the legally required planning process the approvals reasonably necessary to permit Developer to proceed with and implement the proposed improvements, including any amendments thereto, subject to City's customary standards for review and approval of site plans and architectural plans, including expedited design review. Developer and City shall work together using best efforts throughout the planning and permitting stages to resolve any City comments regarding the proposed
development, provided, however, that if Developer believes at any stage that it has reached an impasse regarding any issue with City's staff, such dispute shall be resolved in accordance with the dispute resolution provisions of Section 3.8.

3.3. Diligence in Review and Process. In connection with the proposed development and the issuance of building permits, construction inspections, and the issuance of the Certificates of Occupancy, City agrees to the following processing times: processing times for building plan review shall be in accordance with standards for commercial additions/alterations (fifteen (15) working days turnaround time for initial review, five (5) working days turnaround time for resubmittals). Turnaround time for design review is two (2) weeks provided complete application materials are supplied two (2) weeks or more prior to a regularly scheduled Design Review Board meeting.

3.4. Appointment of Representative. In order to expedite decisions by City, City agrees to designate a single plan check engineer to review all building plans. This will assure consistency of review and efficiency through knowledge of prior submittals. The initial plan check engineer shall be Tom Tahmassian. (Note that the plan check engineer for mechanical electrical, and plumbing permit may be different.) The Developer shall advise the City's representative at the building counter when submitting application that this agreement is in effect and that plans should be given to the designated plan check engineer.

3.5. Expeditious Permit Process. City will use its best efforts to expeditiously review permits, plan reviews, inspections.

3.6 Certificates of Occupancy. City agrees that promptly upon completion of Expansion and at such time as a building is in substantial compliance with applicable City Code and ordinance, City will provide Developer (or the owner of such building) with a Certificate of Occupancy for the Expansion. If City fails or refuses to provide a Certificate of Occupancy for any portion of the Expansion when requested, City shall, within four (4) business days after written request from Developer, provide Developer a written statement indicating in adequate detail how they failed to satisfy the conditions for issuance of the Certificate of Occupancy and what measures or acts City requires before City will issue the Certificate of Occupancy. City shall not withhold approval without good and substantial reason.

3.7 Subdivision Requirements. The parties acknowledge and agree that in connection with the development of the Property in phases or otherwise, as long as the Property remains in the ownership of Developer, Developer will not need to further subdivide the Property, and that no further subdivision approvals are required by City. In the event, however, that Developer does transfer title of a portion of the Property to new entity, City agrees that it will promptly process any and all approvals of all requests for subdivision approval in conjunction with the Property, and further agrees that it will approve any subdivision request reasonably required in connection with the development of the Property, subject to the Property as subdivided complying with applicable zoning and health and safety ordinances.

3.8 Resolution of Disputes. City and Developer agree that Developer must be able to proceed rapidly with the proposed development. Accordingly, the parties agree that if at any time Developer believes that an impasse has been reached with City staff on any issue affecting the proposed development or issuance of a certificate of occupancy, Developer shall have the right to immediately appeal to the Deputy City Manager for Development for a decision pursuant to this Section 3.8. If the issue on which an impasse has been reached where a final decision can be reached by City staff, the Deputy City Manager for Development shall give Developer a final decision no later than eight (8) business days after the request for such decision is made. If issue on which an impasse has been reached is one where a final decision requires City Council action, the Deputy City Manager for Development shall be responsible for scheduling a City Council hearing on the issue no later than three (3) weeks after the request. Both parties agree to continue to use reasonable good faith efforts to resolve any impasse pending any such appeal. The Developer acknowledges that City may not be able to comply with this schedule requiring City Council hearings during the months of December and August. City will,

however, use its best efforts in complying as completely as possible during these months.

4. CITY PROVISION OF INCREASED SEWER CAPACITY.

4.1. Sewer Capacity. Developer has represented that it will increase its discharge to the City's sanitary sewer system by 380,000 gallons per day (average) for the proposed Expansion. The Public Works Director, pursuant to the authority granted to her by Tempe City Code Section 27-213(E) has determined that the Developer is a Significant Industrial User (hereinafter "SIU") that is significantly increasing its discharge to the City's sanitary sewer system. The Director has determined that the amount of $1,536,000 is necessary to be assessed as an additional sewer development fee to reimburse the City for the cost associated with providing the sewer collection system capacity and waste water treatment plant capacity calculated or estimated for the SIU considering average daily and peak capacity needs and abilities. The City has represented to the Developer that it has the ability to accommodate the proposed discharge to the City's sanitary sewer system. No connection to the City sanitary sewer system necessary to accommodate the additional 380,000 gallons per day (average) will be permitted or allowed until the additional sewer development fee of $1,536,000 is paid. This fee shall be due and payable upon issuance of the Certificate of Occupancy for Phase II but in no event latter than April 1, 1998.

4.2. Up-Front Fees. Developer shall pay to City the nonrefundable sum of One Million Five Hundred Thirty Six Thousand and no/100 Dollars ($1,536,000) (the "Up Front Fee") for the additional sewer capacity set forth in Section 4.1.

5. FOREIGN TRADE ZONE TAXATION.

5.1. Foreign Trade Subzone Application. The City shall use its best efforts to cause City of Phoenix to sponsor an application to the Foreign Trade Zones Board of the U.S. Commerce Department ("Board") for issuance of a grant of authority for a special purpose foreign-trade subzone ("Subzone") to be operated by Developer covering the structures comprising the Tempe Fab II Facility (Exhibit C) pursuant to the following procedure:

5.1.1. Application. Developer shall prepare a Subzone application ("Application") at its sole cost and expense.

5.1.2. Subzone Operations Agreement. Prior to requesting activation of the Subzone, the City of Phoenix and Developer shall execute a Foreign Trade Subzone Operations Agreement (the "Operations Agreement") permitting Developer to utilize the Subzone as a foreign-trade subzone, subject to the terms and conditions of the Operations Agreement, for an initial period equal to the maximum period allowed by law, thereafter to be automatically extended from year to year unless terminated by the terms thereof. The Operations Agreement shall acknowledge the provisions of Section 5.1.3. It is specifically understood that in the event Foreign Trade Subzone status is not achieved as provided in Section 5.2, and upon payment of the sewer development fee set forth in paragraphs 4.1 and 4.2 above, Developer shall have an absolute right to unilaterally cancel this Agreement and in such event there shall be no further obligation or liability to City under this Agreement.

5.1.3. City Standing. Developer acknowledges that breach of its property tax class limitations set forth in this Article 5 would be detrimental to the public interest and that Tempe would be a party "directly affected" (as that term is used in 15 CFR Part 400). Developer will not object to the City's standing before the Foreign Trade Zones Board or any other administrative body or court, in the event the City seeks to show that Developer's use of the subzone is not in the public interest and, as a consequence thereof, seeks to terminate the grant of the subzone, or otherwise limit or terminate Developer's use of the subzone.

5.1.4. City Concurrence. The City will execute a letter of concurrence prior to activation of the Subzone by the U.S. Customs Service upon receipt of a written request therefor from Developer, and shall use all reasonable efforts to assist in achieving the Foreign Trade Subzone status and the Operations Agreement with the City of Phoenix, provided that no Developer Performance Default shall have occurred and be continuing.

5.2. Tax Classifications. Arizona Revised Statutes ss. 42-162(A)(8)(b) provides that all real and personal property within the boundaries of a Foreign Trade Zone or subzone shall be classified as Class 8 property for taxation ("Class 8"); provided, however, such classification applies only to the area that is activated for Foreign Trade Zone use by the Port Director of the U.S. Customs Service, pursuant to 19 C.F.R. 146.6, A.R.S.

ss. 42-162.01, and the procedures of the Maricopa County Assessor (the "Assessor") require that the owner notify the Assessor that a reclassification of property to Class 8 should be made.

5.3. Foreign Trade Zone Costs. Developer shall pay all costs charged by the City of Phoenix for the formation and oversight of the special purpose foreign trade subzone of the Phoenix Foreign Trade Zone No. 75.

6. CONDITIONS TO DEVELOPER'S OBLIGATIONS. Developer's obligations under this Agreement are subject to satisfaction of all of the following conditions precedent:

6.1. Zoning. The City represents and warrants that the Property has been properly classified for I-2 zoning pursuant to the City of Tempe zoning ordinance. City further agrees that this zoning is vested and that no other action is necessary in order to vest the zoning. City further agrees that it will take no action to remove or change the zoning without the prior written consent of the Property owner.

6.2. Foreign Trade Zone Status. Developer anticipates that by June 30, 1998, the United States Department of Commerce will have issued a grant of authority for the ("Subzone") to be operated by Developer within the Property pursuant to procedure set forth in Section 5.1. However, City and Developer both understand and agree that Developer has no influence over the speed at which the United States Department of Commerce processes said grant of authority.

6.3. Approval of Plans and Specifications. The City shall have given Developer all necessary permits and approvals for the construction of the Expansion.

6.4. Property Tax Classification. Developer shall receive written acknowledgment from the Maricopa County Assessor's office that all those portions of the Tempe Fab II Facility and all personal property used therein specified in Section 5.1 have been and will continue to be classified as Class 8 property.

7. REPRESENTATIONS.

7.1. Developer Representations. Developer represents and warrants that (a) it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, (b) its execution, delivery and performance of this Agreement is duly authorized, (c) that Developer shall execute all documents and take all action necessary to implement and enforce this Development Agreement, (d) that the representations made by Developer in this Development Agreement are truthful to the best of its knowledge and belief, and (e) Developer shall vigorously defend any action brought to contest the validity of this Development Agreement and shall not seek from the City any payments, contributions, costs or attorneys' fees incurred in such defense.

7.2. City Representations. City represents and warrants (a) that its execution, delivery and performance of this Development Agreement has been duly authorized and entered into in compliance with all the ordinances and codes of City, (b) that subject to a court's equitable powers, this Development Agreement is enforceable in accordance with its terms, (c) that City shall execute all documents and take all action necessary to implement and enforce this Development Agreement, (d) that the representations made by City to Developer in this Development Agreement are truthful to the best of its knowledge and belief, and (e) that City shall vigorously defend any action brought to contest the validity of this Development Agreement
and shall not seek from Developer, any contributions, payments, costs, or attorneys fees incurred in such defense.

8. CANCELLATION OF THE EXPANSION.

8.1. For Business Reasons. Provided the upfront sewer development fee has been paid, Developer reserves the right in its sole discretion to cancel, delay, or abandon construction of all or any part of the Expansion for reasonable business reasons and shall have an absolute right to unilaterally cancel this agreement for any reasonable business reason.

8.2. Due to Impasse or Delay in Approval Process. Developer reserves the right in its sole discretion to cancel, delay, or abandon construction of all or any part of the Expansion if an impasse or unacceptable delay is reached on any matter relating to a City approval under Section 3.8 hereof.

8.3. For Loss of Class 8 Property Classification. Developer reserves the right to cancel, delay, or abandon construction of all or any part of the Expansion at any time if any court decision determines Class 8 to be unconstitutional or invalid in any respect, if a legal challenge to Class 8 is filed and not resolved to Developer's satisfaction, or if any legislative action repeals or adversely modifies the Class 8 assessment ratio. In the event of abandonment of construction of all or any part of the expansion and/or the project, developer shall comply with all City laws.

9. DEFAULTS AND REMEDIES.

9.1. Events Constituting Developer Default. Developer shall be deemed to be in default under this Agreement (a "Developer Performance Default") if (a) Developer commits a material breach of any obligation required to be performed by Developer herein, and (b) such breach continues for a period of sixty (60) days after written notice thereof by City, Developer fails to commence the cure of such breach and, thereafter, to diligently pursue the same to completion.

9.2. Remedies to City. In the event of a Developer Performance Default, which default is not cured within any applicable cure period, City shall have the right to seek and obtain all legal and equitable remedies otherwise available to it.

9.3. Events of Default by City. City shall be deemed to be in default under this Agreement (a "City Performance Default") if (a) City commits a material breach of any obligation required to be performed by City herein, including, without limitation, (i) the failure to issue a Certificate of Occupancy where Developer has complied with its obligations for issuance of such Certificate; or (ii) the failure to provide other approvals as required herein, and such breach continues for a period of sixty (60) days after written notice by Developer, City fails to commence the cure of such breach and, thereafter, to diligently pursue the same to completion.

9.4. Remedies of Developer. In the event City is in default herein, Developer shall have all legal and equitable remedies available to it.

10. DISPUTE RESOLUTION. The parties will attempt in good faith to resolve any controversy or claim arising out of or relating to this Development Agreement through the process set forth in Section 3.8 and through negotiation. If, however, a matter has not been resolved within the time set forth in Section 3.8, then, upon the written demand of either party, the matter shall be resolved by arbitration in accordance with the then prevailing rules for commercial arbitration of the American Arbitration Association. Notwithstanding such rules, unless both parties otherwise agree: (a) the Arbitrator shall be selected within ten (10) business days after giving notice by one party to the other of the demand for arbitration (the "Notice"); (b) the arbitration shall be held within twenty (20) business days after the Notice; and (c) the arbitrator's decision shall be rendered within ten (10) business days after the arbitration is concluded. The results of the arbitration shall be final, binding, and nonappealable.

11. UNCONTROLLABLE FORCES. Neither party shall be considered to be in default in the performance of any of its obligations under this Agreement (other than obligations of such party to pay costs and expenses) when a failure of performance shall be due to an uncontrollable force. The term "uncontrollable force" shall be any cause beyond the control of the party affected, including but not restricted to failure of or threat of failure of facilities, flood, earthquake, tornado, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, labor dispute, labor or material shortage, sabotage, restraint by court order or public authority, and action or non-action by or failure to obtain the necessary authorizations or approvals from any governmental agency or authority, which by exercise of due diligence it shall be unable to overcome. Nothing contained herein shall be construed so as to require a party to settle any strike or labor dispute in which it may be involved. Any party rendered unable to fulfill any of its obligations under this agreement by reason of any uncontrollable force shall give prompt written notice of such fact to the other party and shall exercise due diligence to remove such inability with all reasonable dispatch.

12. MISCELLANEOUS.

12.1. Notices. Unless otherwise specifically provided herein, all notices, demands or other communication is given hereunder shall be in writing and shall be deemed to have been duly delivered upon personal delivery or confirmed facsimile transmission, or as of the second business day after mailing by United States mail, postage prepaid, by certified mail, returns receipt requested, addressed as follows:

To Developer: Microchip Technology Inc.
Attn: Steve Sanghi
Robert J. Lloyd
Mary Simmons-Mothershed
2355 W. Chandler Blvd.
Chandler, Arizona 85226
Facsimile No. (602) 786-7429
Copy to:

Paul E. Gilbert, Esq.
BEUS, GILBERT & MORRILL, P.L.L.C.
3200 North Central Avenue
1000 Great American Tower
Phoenix, AZ 85012-2417
Facsimile No. (602) 234-5983

To City: City Manager
City of Tempe
P. O. Box 5002
31 E. Fifth St., Third Floor
Tempe, Arizona 85280
Facsimile No. (602) 350-8996

Copy to:

City Attorney
City of Tempe
P. O. Box 5003
140 E. Fifth St., Suite 301
Tempe, Arizona 85280
Facsimile No. (602) 350-8645

Notice of address may be changed by either party by giving written notice to the other party as provided herein.

12.2. Amendments. This Agreement may be amended only by a written Agreement fully executed by the parties hereto.

12.3. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Arizona. This Agreement shall be deemed made and entered into in Maricopa County.

12.4. Waiver. No waiver by either party of a breach of any of the terms, covenants or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition herein contained.

12.5. Severability. In the event that any phrase, clause, sentence, paragraph, section, article or other portion of this Agreement shall become illegal, null or void or against public policy, for any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remaining portions of this Agreement shall not be affected thereby and shall remain in force and effect to the fullest extent permissible by law, provided that the fundamental purposes of this Development Agreement are not defeated by such severability. For the Developer, the fundamental purposes of this Development Agreement include, but are not limited to, obtaining Class 8 property tax treatment as presently in effect, as provided in Section 5.2 and all provisions of Articles 4 and 5 hereof.

12.6. Exhibits. All exhibits attached hereto are incorporated herein by reference as though fully set forth herein. The locale and site plans enumerated below represent the geographic area and the property which are the subject to this agreement:

Exhibit "A-1"	Area Map
Exhibit "A-2"	Local Area Map
Exhibit "B-1"	Schematic Diagram of the Property
Exhibit "B-2"	Legal Description of the Property
Exhibit "C"	Schematic Diagram Depicting Foreign Trade Subzone Boundary
Resolution 96.80	Foreign Trade Subzone Resolution in Support of a Foreign Trade Subzone Application by Microchip Technology, Inc.

12.7. Entire Agreement. This Agreement and the exhibits hereto constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and all prior and contemporaneous agreements, representations, negotiations and understandings of the parties hereto, oral or written, are hereby superseded and merged herein.

12.8. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall constitute one and the same instrument.

12.9. Consents and Approvals. City and Developer shall at all times act reasonably and in good faith with respect to any and all matters which require either party to review, consent or approve any act or matter hereunder.

12.10. Mutual Benefits. The City and Developer agree that in making the promises contained in this Development Agreement that certain benefits and advantages will accrue to both parties as a result of the performance of this Agreement, and that therefore this Agreement is being entered into in reliance upon the actual benefits afforded each of the parties.

12.11. Conflict of Interest. No member, official or employee of the City may have any direct or indirect interest in this Development Agreement, nor participate in any decision relating to the Development Agreement which is prohibited by law. All parties hereto acknowledged that this Agreement is subject to cancellation pursuant to the provisions of Arizona Revised Statute ss. 38-511.

12.12. Warranty Against Payment of Consideration for Agreement. Developer warrants that it has not paid or given, and will not pay or give, any third person any money or other consideration for obtaining this Development Agreement, other than normal costs of conducting business and costs of professional services such as architects, consultants, engineers and attorneys.

12.13. Enforcement by Either Party. This Agreement shall be enforceable by any party hereto notwithstanding any change hereafter in any applicable General Plan, specific plan, zoning ordinance, subdivision ordinance or building ordinance adopted by City which substantially changes, alters or amends the applicability of said plans or ordinances to the development of the Property, or the Expansion.

12.14. Cumulative Remedies. Except as otherwise expressly stated in this Agreement, the rights and remedies of the parties are cumulative, and the exercise by any party of one or more of such rights or remedies will not preclude the exercise by it, at the same time or different times, of any other rights or remedies for the same default or any other default by such defaulting party. The provision of this Section 12.14 are not intended to modify Articles 9 or 10 or any other provisions of this Agreement and are not intended to provide additional remedies not otherwise permitted by law.

12.15. Attorneys' Fees. In any arbitration, quasi judicial or administrative proceedings or any other action in any court of competent jurisdiction, brought by either party to enforce any covenant or any of such party's rights or remedies under this Agreement, including any action for declaratory or equitable relief, the prevailing party shall be entitled to reasonable attorneys' fees and all reasonable costs, expenses and disbursements in connection with such action.

12.16. Successors. This Agreement shall be binding upon, and shall inure to the benefit of the parties hereto and their successors and assigns.

12.17. No Third Party Beneficiaries. This Agreement is made and entered into for the sole protection and benefit of the parties. No person other than the parties shall have any right of action based upon any provision of this Agreement.

12.18. Recordation. Simultaneously with the execution of this Development Agreement, Developer and City will record a copy of this Development Agreement in the records of the Maricopa County Recorder. Any written amendment hereto shall be similarly recorded within ten days after execution by the parties.

IN WITNESS WHEREOF, City has caused this Agreement to be duly executed in its name and behalf by its Mayor and its seal to be hereunto duly affixed and attested by its City Clerk, and Developer has signed and sealed the same, on or as of the day and year first above written.

CITY OF TEMPE, ARIZONA, an Arizona municipal corporation

ATTEST:

By: /s/ Karen L. Buikingham
Dep. CITY CLERK

/s/ Neil G. Giuliano
MAYOR

APPROVED AS TO FORM:

/s/ David R. Merkel
TEMPE CITY ATTORNEY

MICROCHIP TECHNOLOGY INC., a Delaware corporation

By: /s/ Steve Sanghi

Its: President & CEO

STATE OF ARIZONA)
: ss.
County of Maricopa)

The foregoing Development Agreement was acknowledged before me this 11th day of July, 1997, by Neil G. Giuliano, Mayor of the City of Tempe,

Arizona, an Arizona municipal corporation, on behalf of the corporation.

My Commission Expires:

/s/ Kay Savard

Notary Public

KAY SAVARD
Notary Public - Arizona
Maricopa County
My Comm. Expires May 31, 2001

STATE OF ARIZONA)
: ss.
County of Maricopa)

The foregoing Development Agreement was acknowledged before me this 17 day of July, 1997, by Steve Sanghi, the President & CEO of Microchip Technology Inc., a Delaware corporation, on behalf of the corporation.

My Commission Expires:

/s/ Dianne Iverson

Notary Public

"OFFICIAL SEAL"
Dianne Iverson
Notary Public - Arizona
Maricopa County
My Commission Expires: 4/25/98

[AREA MAP]

Exhibit A-1
[LOCAL AREA MAP]

Exhibit A-2
[SCHEMATIC DIAGRAM OF THE PROPERTY]

Exhibit B-1
LEGAL DESCRIPTION

Escrow No. 9311301 44

PARCEL NO. 1:

Lots 57 and 58, HOHOKAM INDUSTRIAL PARK UNIT II, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona.

PARCEL NO. 2:

The East half of abandoned Hohokam Drive, as abandoned by ordinance recorded in Docket 16127, page 472, records of Maricopa County, Arizona, said Hohokam Drive described as follows:

Beginning at the Northwest corner of Lot 58 of Hohokam Industrial Park Unit II, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona; thence South 00 degrees 26 minutes 36 seconds East along the West line of said Lot 58, a distance of 344.08 feet to a Southwesterly corner of said Lot 58; thence South 45 degrees 10 minutes 38 seconds East a distance of 21.31 feet to another Southwesterly corner of said Lot 58; thence North 89 degrees 54 minutes 41 seconds West a distance of 90 feet, more or less to a Southeasterly corner of Lot 59 of said Hohokam Industrial Park Unit 2; thence North 44 degrees 49 minutes 21 seconds East a distance of 21.11 feet to another Southeasterly corner of said Lot 59; thence North 00 degrees 26 minutes 36 seconds West along the East line of said Lot 59 a distance of 343.49 feet to the Northeast corner of said Lot 59; thence North 89 degrees 31 minutes 24 seconds East a distance of 60 feet to the Point of Beginning.

PARCEL NO 3:

That portion of the Southeast quarter of the Northwest quarter of Section 20, Township 1 North, Range 4 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

Beginning at the Southeast corner of said Southeast quarter of the Northwest quarter; thence South 89 degrees 31 minutes 24 seconds West along the South line of said Southeast quarter of the Northwest quarter and along the North lines of Lots 57 and 58, Hohokam Industrial Park Unit II, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona, a distance of 647.87 feet to the Northwest corner of said Lot 58; thence North 0 degrees 26 minutes 36 seconds West along the Northerly prolongation of the West line of said Lot 58, a distance of 50 feet to a point on the South line of the property described in Deed Grant G. Sandman, et ux, in Book 335 of Deeds, page 351, records of Maricopa County, Arizona; thence North 89 degrees 31 minutes 24 seconds East, along the South line of the property described in Book 335 of Deeds, page 351, a distance of 648.35 feet to a point on the East line of said Southwest quarter of the Northwest quarter;

Exhibit B-2
LEGAL DESCRIPTION - CONTINUED

Escrow No. 9311301 44

thence South 0 degrees 05 minutes 19 seconds West along the East line of said Southeast quarter of the Northwest quarter a distance of 50 feet to the Point of Beginning;

Except the East 25 feet thereof.

PARCEL NO. 4:

All that part of the South half of the Southeast quarter of the Northwest quarter of Section 20, Township 1 North, Range 4 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, lying South of the South line of the 100 foot strip of land as conveyed to drainage district no. 2 by right-of-way Deed recorded in Book 172 of Deeds, page 392 and 393, records of Maricopa County, Arizona;

Except the North 100 feet of the East 625 feet thereof, and

Except that portion described as follows:

Beginning at the Southeast corner of said Southwest quarter of the Northwest quarter; thence South 89 degrees 31 minutes 24 seconds West along the South line of said Southeast quarter of the Northwest quarter and along the North lines of Lot 57 and 58, Hohokam Industrial Park Unit II, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona, a distance of 647.87 feet to the Northwest corner of said Lot 58; thence North 0 degrees 26 minutes 36 seconds West along the Northerly prolongation of the West line of said Lot 58, a distance of 50 feet to a point on the South line of the property described in Deed to Grant G. Sandman, et ux, in Book 335 of Deeds, page 351, records of Maricopa County, Arizona; thence North 89 degrees 31 minutes 24 seconds East along the South line of the property described in Book 335 of Maps, page 351, a distance of 648.35 feet to a point on the East line of said Southeast quarter of the Northwest quarter; thence South 0 degrees 05 minutes 19 seconds West along the East line of said Southeast quarter of the Northwest quarter, a distance of 50 feet to the Point of Beginning;

Except the East 25 feet thereof; and

Except from Parcel Nos. 1, 2, 3 and 4 above;

That portion of Lots 57 and 58, Hohokam Industrial Park Unit 2, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona, and the South half of the Southeast quarter of the Northwest quarter of Section 20, Township 1 North, Range 4 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, described as follows:

Beginning at the Northeast corner of said Lot 57; thence South 0 degrees 05 minutes 02 seconds West (recorded South 0 degrees 05 minutes 19 seconds West) along the Easterly line of said Lot 57, 350.06 feet; thence South 45 degrees 05

LEGAL DESCRIPTION - CONTINUED

Escrow No. 9311301 44

minutes 08 seconds West (recorded South 45 degrees 05 minutes 19 seconds West), 21.21 feet; thence North 89 degrees 54 minutes 46 seconds West, along the Southerly line of Lots 57 and 58; 619.53 feet (recorded North 89 degrees 54 minutes 41 seconds West, 619.50 feet) to the centerline of Hohokam Drive (now abandoned); thence North 0 degrees 26 minutes 55 seconds West (recorded North 0 degrees 26 minutes 36 seconds West) along said center line of Hohokam Drive 284.12 feet; thence South 89 degrees 45 minutes 40 seconds East, 242.13 feet to a point on a curve, the center of which bears South 89 degrees 45 minutes 40 seconds East, 45.00 feet; thence Northeasterly along said curve through a central angle of 90 degrees 00 minutes 00 seconds an arc distance of 70.69 feet; thence South 89 degrees 45 minutes 40 seconds East, 87.00 feet; thence North 0 degrees 02 minutes 00 seconds East, 34.38 feet to a point on the North line of said Lot 57, said line also being the South line of the South half of the Southeast quarter of the Northwest quarter of said Section 20; thence continuing North 0 degrees 02 minutes 00 seconds East, 26.87 feet; thence North 89 degrees 33 minutes 21 seconds East, 262.74 feet to a point on the Westerly right-of-way line of 52 Street; thence South 0 degrees 26 minutes 36 seconds West, along said right-of-way line 26.74 feet to the Point of Beginning.

PARCEL NO. 5:

Easement for access, and rights incident thereto, as created by instrument recorded in Recording No. 88-257072, over:

The East half of abandoned Hohokam Drive, as an abandoned ordinance recorded by Docket 16127, page 472, records of Maricopa County, Arizona, said Hohokam Drive described as follows:

Beginning at the Northwest corner of Lot 58, Hohokam Industrial Park Unit 2, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona;

Thence South 00 degrees 26 minutes 55 seconds East (recorded South 00 degrees 26 minutes 36 seconds East) along the West line of said Lot 58, a distance of 344.16 feet (recorded 344.08 feet) to a Southwesterly corner of said Lot 58;

Thence South 45 degrees 10 minutes 51 seconds East (recorded South 45 degrees 10 minutes 38 seconds East) a distance of 21.31 feet to another Southwesterly corner of said Lot 58;

Thence North 89 degrees 54 minutes 46 seconds West (recorded North 89 degrees 54 minutes 41 seconds West) a distance of 90.00 feet to a Southeasterly corner of Lot 59 of said Hohokam Industrial Park Unit 2;

Thence North 44 degrees 49 minutes 09 seconds East (recorded North 44 degrees 49 minutes 21 seconds East) a distance of 21.11 feet to another Southeasterly Corner of said Lot 59;

Thence North 00 degrees 26 minutes 55 seconds West (recorded North 00 degrees 26 minutes 36 seconds West) along the East line of said Lot 59, a distance of 343.56 feet (recorded 343.49 feet) to the Northeast corner of said Lot 59;

Thence North 89 degrees 31 minutes 46 seconds East (recorded North 89 degrees 31 minutes 24 seconds East) a distance of 60.00 feet to the Point of Beginning;

Except the following described property;

Beginning at the Northwest corner of Lot 58 Hohokam Industrial Park Unit 2, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona;

Thence South 00 degrees 26 minutes 55 seconds East (recorded South 00 degrees 26 minutes 36 seconds East) along the West line of said Lot 58, a distance of 75.12 feet;

Thence North 89 degrees 45 minutes 40 seconds West, 30.00 feet to the centerline of said abandoned Hohokam Drive;

Thence North 00 degrees 26 minutes 55 seconds West (recorded North 00 degrees 26 minutes 36 seconds West) along said centerline 74.75 feet to a point on the North line of the Southwest quarter of Section 20, Township 1 North, Range 4 East of the Gila and Salt River Base and Meridian;

Thence North 89 degrees 31 minutes 46 seconds East (recorded North 89 degrees 31 minutes 24 seconds East) along said line 30.00 feet to the Point of Beginning.

PARCEL NO. 6:

Easement for access, and rights incident thereto, as created by instrument recorded in Recording No. 8-257072, over:

The West half of abandoned Hohokam Drive, as abandoned by ordinance recorded in Docket 16127, page 472, records of Maricopa County, Arizona, said Hohokam Drive described as follows:

Beginning at the Northwest corner of Lot 58, HOHOKAM INDUSTRIAL PARK UNIT 2, a subdivision recorded in Book 174 of Maps, page 33, records of Maricopa County, Arizona;

Thence South 00 degrees 26 minutes 55 seconds East (recorded South 00 degrees 26 minutes 36 seconds East) along the West line of said Lot 58, a distance of 344.16 feet (recorded 344.08 feet) to a Southwesterly corner of said Lot 58;

Thence South 45 degrees 10 minutes 51 seconds East (recorded South 45 degrees 10

minutes 38 seconds East) a distance of 21.31 feet to another Southwesterly corner of said Lot 58;

Thence North 89 degrees 54 minutes 46 seconds West (recorded North 89 degrees 54 minutes 41 seconds West) a distance of 90.00 feet to a Southeasterly corner of Lot 59 of said HOHOKAM INDUSTRIAL PARK UNIT 2;

Thence North 44 degrees 49 minutes 09 seconds East (recorded North 44 degrees 49 minutes 21 seconds East) a distance of 21.11 feet to another Southeasterly corner of said Lot 59;

Thence North 00 degrees 26 minutes 55 seconds West (recorded North 00 degrees 26 minutes 36 seconds West) along the East line of said Lot 59, a distance of 343.56 feet (recorded 343.49 feet) to the Northeast corner of said Lot 59;

Then North 89 degrees 31 minutes 46 seconds (recorded North 89 degrees 31 minutes 24 seconds East) a distance of 60.00 feet to the Point of Beginning.

[SCHEMATIC DIAGRAM DEPICTING FOREIGN TRADE SUBZONE BOUNDARY]

Exhibit C
CERTIFICATION

I, Helen R. Fowler, City Clerk for the City of Tempe, Maricopa County, Arizona, do hereby certify the attached to be a true and exact copy of Resolution 96.80 approved at the Council Meeting held on December 19, 1996, of the City of Tempe, Arizona.

Dated this 25th day of June, 1997.

/s/ Helen R. Fowler
- ------------------------
Helen R. Fowler, CMC
City Clerk

RESOLUTION NO. 96-80.

OF THE CITY COUNCIL OF THE CITY OF TEMPE

A RESOLUTION IN SUPPORT OF A FOREIGN TRADE SUB-ZONE APPLICATION BY MICROCHIP TECHNOLOGY, INC. TO THE FEDERAL GOVERNMENT FOR A FOREIGN TRADE ZONE STATUS DESIGNATION.

WHEREAS, Microchip Technology Inc., is an important component of Tempe, Arizona and its continued growth and presence is essential and encouraged; and,

WHEREAS, Microchip Technology is applying to the U.S. Department of Commerce for Foreign Trade Sub-Zone Status for its current manufacturing facility (the building only) located at 1200 S. 52nd Street in Tempe, Arizona; and

WHEREAS, Microchip is a significant source of employment in the City of Tempe; and

WHEREAS, Foreign Trade Sub-Zone status will be an important aspect of Microchip international operations, which enhances the opportunity for local economic activity that will benefit the City of Tempe;

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF TEMPE, as follows:

We hereby support the Foreign Trade Sub-Zone Application by Microchip Technology, Inc. to the Federal Government for Foreign Trade Zone Status Designation, and request that the Microchip application be duly considered and expeditiously approved by the Foreign Trade Zones Board of the Department of Commerce.

PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, this 19th day of December, 1996.

/s/ Neil G. Giuliano

MAYOR

ATTEST

/s/ Helen R. Fowler
- ------------------------
City Clerk

APPROVED AS TO FORM

/s/ C. Brad Woodford
- ------------------------
City Attorney

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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

<TABLE>
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	(unaudited) Three Months Ended December 31,		Nine Months Ended December 31,	
	1997	1996	1997	1996
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Net income	$13,127	$14,755	$50,141	$34,567
Weighted average shares:				
Common shares outstanding	53,762	51,189	53,362	51,274
Common equivalent shares representing shares issuable upon exercise of stock options(1)	3,060	3,405	3,195	2,927
Weighted average common and common equivalent shares outstanding	56,822	54,594	56,557	54,201
Basic net income per share	$ 0.24	$ 0.29	$ 0.94	$ 0.67
Diluted net income per share	$ 0.23	$ 0.27	$ 0.89	$ 0.64

</TABLE>

- --------

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

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