

MICROCHIP TECHNOLOGY INC
Form 10-K
May 30, 2014
Table of Contents

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

FORM 10-K
(Mark One)

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

OR

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

Commission File Number: 0-21184

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

Delaware

86-0629024

(State or Other Jurisdiction of Incorporation or
Organization)

(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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

Documents Incorporated by Reference

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

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

FORM 10-K

TABLE OF CONTENTS

	Page	
PART I		
<u>Item 1.</u>	<u>Business</u>	3
<u>Item 1A.</u>	<u>Risk Factors</u>	11
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	22
<u>Item 2.</u>	<u>Properties</u>	22
<u>Item 3.</u>	<u>Legal Proceedings</u>	23
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	23
PART II		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity and Related Stockholder Matters</u>	23
<u>Item 6.</u>	<u>Selected Financial Data</u>	25
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	43
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	43
<u>Item 9A.</u>	<u>Controls and Procedures</u>	43
<u>Item 9B.</u>	<u>Other Information</u>	46
PART III		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	46
<u>Item 11.</u>	<u>Executive Compensation</u>	46
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	47
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	47
PART IV		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	48
	<u>Signatures</u>	49

Table of Contents

PART I

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

Item 1. BUSINESS

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

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

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

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

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

Recent Developments

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

Table of Contents

Industry Background

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

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

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

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

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

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

Our Products

Our strategic focus is on embedded control solutions, including:

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

Table of Contents

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

Microcontrollers

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

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

Development Tools

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

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

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

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

Analog, Interface and Mixed Signal Products

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

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

an application segment approach targeted to provide customers with application solutions.

Memory Products

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

Table of Contents

Technology Licensing

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

Manufacturing

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

Our manufacturing facilities are located in:

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

Wafer Fabrication

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

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

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

We have, in recent years, outsourced a larger portion of our wafer production requirements to third-party wafer foundries to augment our internal manufacturing capabilities. As a result of our recent acquisitions, we have become

more reliant on outside wafer foundries for our wafer fabrication requirements. In fiscal 2014, approximately 38% of our sales came from products that were produced at outside wafer foundries.

Wafer Probe, Assembly and Test

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

Table of Contents

General Matters Impacting Our Manufacturing Operations

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

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

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

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

Research and Development (R&D)

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

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

Sales and Distribution

General

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

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

Table of Contents

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

Distribution

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

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

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

Sales by Geography

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

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

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

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

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

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

global economic and semiconductor industry conditions have had a more significant impact on our results than seasonality, and has made it difficult to assess the impact of seasonal factors on our business.

Backlog

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

Table of Contents

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

Competition

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

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

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

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

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

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

Patents, Licenses and Trademarks

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

area involving patent law, trademark law, copyright law and the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S.

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

Table of Contents

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

Environmental Regulation

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

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

Employees

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

Executive Officers of the Registrant

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

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

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

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

from the University of Mumbai, India. Mr. Moorthy was elected to the Board of Directors of Rogers Corporation in July 2013.

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

Table of Contents

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

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

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

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

Item 1A. RISK FACTORS

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Our business is dependent on selling through distributors.

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

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

Table of Contents

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

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

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

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

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

Our technology licensing business exposes us to various risks.

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

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

Because our SuperFlash technology is complex, there may be delays from time to time in developing and enhancing such technology. There can be no assurance that our existing or any enhanced or new technology will achieve or maintain substantial market acceptance. Our licensees may experience disruptions in production or lower than expected production levels which would adversely affect the revenue that we receive from them. Our technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and

damages (including legal defense costs) arising from intellectual property matters. We could be exposed to substantial liability for claims or damages related to intellectual property matters or indemnification claims. Any claim, with or without merit, could result in significant legal fees and require significant attention from our management. Any of the foregoing issues may adversely impact the success of our licensing business and adversely affect our future operating results.

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

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

Table of Contents

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

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

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

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

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

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

Our semiconductor manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have more than one source for these supplies, but there are only a limited number of suppliers capable of delivering various materials and equipment that meet our standards. The materials and equipment necessary for our business could become more difficult to obtain as worldwide use of semiconductors in product

applications increases. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change the relationships that we have with our suppliers. This could impair sourcing flexibility or increase costs. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time than expected to fill our orders or that they will no longer support certain equipment with updates or spare and replacement parts. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business.

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

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

Table of Contents

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

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

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

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

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

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

Our ability to obtain patents, licenses and other intellectual property rights covering our products and manufacturing processes is important for our success. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our technology and manufacturing processes. The process of seeking patent protection can be long and expensive, and patents may not be issued from currently pending or future applications. In addition, our existing and new patents, trademarks and copyrights that issue may not have sufficient scope or strength to provide meaningful protection or commercial advantage to us. We may be subject to, or may ourselves initiate, interference proceedings in the U.S. Patent and Trademark Office, patent offices of a foreign country or U.S. or foreign courts, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S. Infringement of our intellectual property rights by a third party could result in uncompensated lost market and revenue opportunities for us. Although

we continue to vigorously and aggressively defend and protect our intellectual property on a worldwide basis, there can be no assurance that we will be successful in our endeavors.

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

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

Table of Contents

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

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

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

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

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

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

Operations at any of our facilities, at the facilities of any of our wafer fabrication or assembly and test subcontractors, or at any of our significant vendors or customers may be disrupted for reasons beyond our control. These reasons may include work stoppages, power loss, incidents of terrorism or security risk, political instability, public health issues, telecommunications, transportation or other infrastructure failure, radioactive contamination, fire, earthquake, floods, volcanic eruptions or other natural disasters. We have taken steps to mitigate the impact of some of these events

should they occur; however, we cannot be certain that our actions will be effective to avoid a significant impact on our business in the event of a disaster or other business interruption.

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

Table of Contents

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

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

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

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

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

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

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

We use forward currency exchange contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the value of our

non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition. In particular, in periods when a foreign currency significantly declines in value in relation to the U.S. dollar, such as past declines in the Euro relative to the U.S. dollar, customers transacting in that foreign currency may find it more difficult to fulfill their previously committed contractual obligations or to undertake new obligations to make payments or purchase products. In periods when the U.S. dollar is significantly declining in relation to the British pound, Euro and Thai baht, the operational costs in our European and Thailand subsidiaries are adversely affected.

Table of Contents

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

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

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

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

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

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

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

We must comply with many federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous substances used in our products and manufacturing processes. Our failure to comply with applicable regulations could result in fines, suspension of production, cessation of operations or future liabilities. Such environmental regulations have required us in the past, and could require us in the future to buy costly equipment or to incur significant expenses to comply with such regulations. Our failure to control the use of, or adequately restrict the discharge of, hazardous substances could impact the health of our employees and others and could impact our ability to operate. Such failure could also restrict our ability to ship certain

products to certain countries, require us to modify our operations logistics, or require us to incur other significant costs and expenses. There is a continuing expansion in environmental laws with a focus on reducing or eliminating hazardous substances and substances of high concern in electronic products and shipping materials. These and other future environmental regulations could require us to reengineer certain of our existing products and may make it more expensive for us to manufacture, sell and ship our products. In addition, the number and complexity of laws focused on the energy efficiency of electronic products and accessories, the recycling of electronic products, and the reduction in quantity and the recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may not have sufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may also have to write off inventory in the event that we hold unsaleable inventory as a result of changes to regulations or customer requirements. We expect these risks and trends to continue. In addition, we anticipate increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances of high concern in our products and energy efficiency measures. These requirements may increase our own costs, as well as those passed on to us by our supply chain.

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

The conversion of some or all of our outstanding debentures will dilute the ownership interest of existing stockholders to the extent we deliver common stock upon conversion of the debentures. Upon conversion, we may satisfy our

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

Table of Contents

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Item 2. PROPERTIES

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

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

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

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

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

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

Table of Contents

Stock Price Performance Graph

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

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

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

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

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

Table of Contents

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

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

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

Item 6. SELECTED FINANCIAL DATA

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

Table of Contents

Statement of Income Data:

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

Balance Sheet Data:

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

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

Table of Contents

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

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

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

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

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

Note Regarding Forward-looking Statements

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

- The effects that adverse global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, fixed cost absorption, competition and economic conditions on gross margin;
- The amount of, and changes in, demand for our products and those of our customers;
- Our expectation that in the future we will acquire additional business that we believe will complement our existing businesses;
- Our expectation that in the future we will enter into joint development agreements or other business or strategic relationships with other companies;
- The level of orders that will be received and shipped within a quarter;
- Our expectation that our inventory levels will decrease between 7 and 11 days in the June 2014 quarter compared to the March 2014 quarter and that it will allow us to maintain competitive lead times, provide strong delivery performance to our customers and keep our fiscal 2015 capital expenditures at relatively low levels;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
-

Our belief that deferred cost of sales are recorded at their approximate carrying value and will have low risk of material impairment;

• Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;

• Our ability to increase the proprietary portion of our analog, interface and mixed signal product lines and the effect of such an increase;

• Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;

• The impact of any supply disruption we may experience;

Table of Contents

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

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

Introduction

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

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

Table of Contents

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

Strategy

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

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

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

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

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

We market and sell our products worldwide primarily through a network of direct sales personnel and distributors. Our distributors focus primarily on servicing the product and technical support requirements of a broad base of diverse customers. We believe that our direct sales personnel combined with our distributors provide an effective means of reaching this broad and diverse customer base. Our direct sales force focuses primarily on major strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and

support centers in major metropolitan areas in North America, Europe and Asia. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our field sales engineers (FSEs), field application engineers (FAEs), and sales management personnel have technical degrees and have been previously employed in an engineering environment. We believe that the technical knowledge of our sales force is a key competitive advantage in the sale of our products. The primary mission of our FAE team is to provide technical assistance to strategic accounts and to conduct periodic training sessions for FSEs and distributor sales teams. FAEs also frequently conduct technical seminars for our customers in major cities around the world, and work closely with our distributors to provide technical assistance and end-user support.

Table of Contents

Critical Accounting Policies and Estimates

General

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

Revenue Recognition – Distributors

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

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

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

that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow us to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, we do not reduce deferred income on shipments to distributors or accounts receivable by anticipated future concessions; rather, price concessions are typically recorded against deferred income on shipments to distributors and accounts receivable when incurred, which is generally at the time the distributor sells the product. At March 31, 2014, we had approximately \$222.8 million of deferred revenue and \$75.0 million in deferred cost of sales recognized as \$147.8 million of deferred income on shipments to distributors. At March 31, 2013, we

Table of Contents

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

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

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

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

Business Combinations

All of our business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense or directly in contributed capital. The measurement of the fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets and acquired investments, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the

use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. The valuation of non-marketable equity investments acquired also takes into account variables such as conditions reflected in the capital markets, recent financing activity by the investees, the investees' capital structure and the terms of the investees' issued interests.

Table of Contents

Share-based Compensation

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

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

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

Inventories

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

products for which historic sales are not representative of future demand. Alternatively, demand can be adjusted down to the extent any existing products are being replaced or discontinued.

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

Table of Contents

Income Taxes

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

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

Junior Subordinated Convertible Debentures

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

Contingencies

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

respect to the extent or outcome of any such litigation in the future.

Table of Contents

Results of Operations

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

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

Net Sales

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

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

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

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

	Year Ended March 31,					
	2014		2013		2012	
Microcontrollers	\$1,260,988	65.3	\$1,035,514	65.5	\$928,509	67.1
Analog, interface and mixed signal products	428,088	22.2	307,723	19.4	171,165	12.4

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Memory products	134,624	7.0	142,557	9.0	179,217	13.0
Technology licensing	94,578	4.9	83,803	5.3	87,001	6.3
Other	12,939	0.6	12,026	0.8	17,284	1.2
Total net sales	\$1,931,217	100.0	\$1,581,623	100.0	\$1,383,176	100.0

Table of Contents

Microcontrollers

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

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

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

Analog, Interface and Mixed Signal Products

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

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

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

Memory Products

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

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

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

Table of Contents

Technology Licensing

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

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

Other

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

Distribution

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

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

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

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

Net Sales by Geography

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

	Year Ended March 31,					
	2014	%	2013	%	2012	%
Americas	\$365,609	18.9	\$313,574	19.8	\$290,392	21.0

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Europe	411,531	21.3	344,398	21.8	319,881	23.1
Asia	1,154,077	59.8	923,651	58.4	772,903	55.9
Total net sales	\$1,931,217	100.0	\$1,581,623	100.0	\$1,383,176	100.0

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

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

Table of Contents

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

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

Gross Profit

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

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

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

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

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

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

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

periods covered by this report.

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

Table of Contents

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

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

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

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

Research and Development (R&D)

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

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

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

Selling, General and Administrative

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

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

Table of Contents

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

Special Charges

Acquisition Related Expenses

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

Patent Licenses

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

Other Income (Expense)

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

Provision for Income Taxes

Our provision for income taxes reflects tax on our foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate of 8.6% in fiscal 2014, 16.3% in fiscal 2013 and 11.3% in fiscal 2012. Excluding certain one-time tax events described below, our effective tax rates were lower than statutory rates in the U.S. primarily due to our mix of earnings in foreign jurisdictions with lower tax rates and the R&D tax credit. Our effective tax rate in fiscal 2014 includes \$19.4 million of benefits related to various items including a settlement with the IRS for our fiscal 2009 and fiscal 2010 tax audits and the expiration of the statute of limitations on various tax reserves. These benefits reduced our effective tax rate by 4.5 percentage points to an effective tax rate of 8.6%. During fiscal 2013,

our effective tax rate was higher due to \$27.2 million of one-time foreign and domestic tax implications from our acquisition of SMSC, which offset an \$8.1 million benefit received from the reinstatement of the R&D credit and \$9.7 million of other non-recurring tax events including releases of previously established tax reserves related to audit closures and expirations of statutes of limitations and the revaluation of deferred tax assets and liabilities. These items increased our effective tax rate by 6.2% to an effective tax rate of 16.3%. During fiscal 2012, we completed a project that led to additional R&D tax credit claims in the amount of \$4.1 million which reduced our effective tax rate by 1.1% to 11.3%.

Table of Contents

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

Contractual Obligations

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Table of Contents

Recently Issued Accounting Pronouncements

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

43

Table of Contents

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

Management Report on Internal Control Over Financial Reporting

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

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

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

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

Changes in Internal Control over Financial Reporting

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

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

/s/ Ernst & Young LLP

Phoenix, Arizona

May 30, 2014

45

Table of Contents

Item 9B. OTHER INFORMATION

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

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

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

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

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

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

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

Item 11. EXECUTIVE COMPENSATION

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

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

stockholders.

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

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

Table of Contents

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

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

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

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

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

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

Table of Contents

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	Page No.
(1) Financial Statements:	
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of March 31, 2014 and 2013	F-2
Consolidated Statements of Income for each of the three years in the period ended March 31, 2014	F-3
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2014	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2014	F-5
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 31, 2014	F-6
Notes to Consolidated Financial Statements	F-7
(2) Financial Statement Schedules	None
(3) The Exhibits filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index beginning on page 51 hereof, which Exhibit Index is incorporated herein by this reference.	
(b) See Item 15(a)(3) above.	
(c) See "Index to Financial Statements" included under Item 8 to this Form 10-K.	

Table of Contents

SIGNATURES

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

MICROCHIP TECHNOLOGY INCORPORATED
(Registrant)

Date: May 30, 2014

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

Table of Contents

POWER OF ATTORNEY

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

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

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

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

/s/ J. Eric Bjornholt

Vice President and Chief Financial
Officer
(Principal Financial and Accounting
Officer)

May 30, 2014

J. Eric Bjornholt

50

Table of Contents

EXHIBITS

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

JPMorgan Chase Bank, N.A., as
Administrative Agent

51

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

Annual Report on Form 10-K

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

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

EXHIBITS

YEAR ENDED MARCH 31, 2014

MICROCHIP TECHNOLOGY INCORPORATED
AND SUBSIDIARIES

CHANDLER, ARIZONA

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

Index to Consolidated Financial Statements

	Page Number
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of March 31, 2014 and 2013	F-2
Consolidated Statements of Income for each of the three years in the period ended March 31, 2014	F-3
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2014	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2014	F-5
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 31, 2014	F-6
Notes to Consolidated Financial Statements	F-7

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

/s/ Ernst & Young LLP

Phoenix, Arizona
May 30, 2014

Table of Contents

Item 1. Financial Statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

ASSETS

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

See accompanying notes to consolidated financial statements

Table of ContentsMICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

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

See accompanying notes to consolidated financial statements

Table of Contents

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

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

See accompanying notes to consolidated financial statements

Table of Contents

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

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

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Contingent consideration payment	(14,700)	—	—
Capital lease payments	(454)	—	—
Excess tax benefit from share-based compensation	1,411	297	576
Net cash (used in) provided by financing activities	(235,016)	382,170	(208,145)
Effect of foreign exchange rate changes on cash and cash equivalents	—	986	—
Net decrease in cash and cash equivalents	(61,731)	(107,421)	(68,169)
Cash and cash equivalents at beginning of period	528,334	635,755	703,924
Cash and cash equivalents at end of period	\$466,603	\$528,334	\$635,755

See accompanying notes to consolidated financial statements

F-5

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

Common Stock and
Additional
Paid-in-Capital