

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;
- The level of orders that will be received and shipped within a quarter;
- Our expectation that our inventory levels will stay about flat in the June 2012 quarter compared to the March 2012 quarter and that it will allow us to maintain competitive lead times;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- Our belief that deferred cost of sales are recorded at their approximate carrying value and will have low risk of material impairment;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- Our ability to increase the proprietary portion of our analog and interface product lines and the effect of such an increase;
- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities will provide sufficient capacity to respond to increases in demand with modest incremental capital expenditures;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- The impact of seasonality on our business;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The recoverability of our deferred tax assets;
- The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;
- Our belief that the estimates used in preparing our consolidated financial statements are reasonable;
- Our belief that recently issued accounting pronouncements listed in this document will not have a significant impact on our consolidated financial statements;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;

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- 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;
- The accuracy of our estimates of market information that determines the value of our Auction Rate Securities (ARS), and that the lack of markets for the ARS will not have a material impact on our liquidity, cash flow, or ability to fund operations;
- 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;
- Our intention to fund the SMSC acquisition purchase price using a portion of our existing balance of cash, cash equivalents or short-term investments and borrowings under our credit agreement; 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 2012 compared to fiscal 2011, and for fiscal 2011 compared to fiscal 2010. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control products, which include microcontrollers, high-performance linear and mixed signal devices, power management and thermal management devices, interface devices, Serial EEPROMs, and our patented KeeLoq® security devices. 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. With our acquisition of SST in April 2010, we added Flash-IP solutions and SuperFlash memory products to our strategic focus. We license SuperFlash technology to 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 and assembly and test. The ownership of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning our wafer fabrication facilities and our assembly and test operations, and by employing statistical process control techniques, we have been able to

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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 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 and mixed-signal products, Flash-IP systems, new development systems, software and application-specific software libraries. We are also developing new design and process technologies to achieve further cost reductions and performance improvements in our products.

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

Critical Accounting Policies and Estimates

General

Our discussion and analysis of 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 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

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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, 2012, we had approximately \$159.1 million of deferred revenue and \$50.4 million in deferred cost of sales recognized as \$108.7 million of deferred income on shipments to distributors. At March 31, 2011, we had approximately \$208.1 million of deferred revenue and \$68.1 million in deferred cost of sales recognized as \$140.0 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 \$51.7 million at March 31, 2012 and \$71.9 million at March 31, 2011. 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

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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 fair value of assets accrued and liabilities assumed requires significant judgment. The valuation of intangible assets and acquired investments in privately held companies, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. The valuation of non-marketable equity investments acquired also takes into account variables such as conditions reflected in the capital markets, recent financing activity by the investees, the investees' capital structure and the terms of the investees' issued interests.

Share-based Compensation

We measure 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 2012 was \$38.3 million, of which \$32.7 million was reflected in operating expenses. Total share-based compensation included in cost of sales in fiscal 2012 was \$5.6 million. Total share-based compensation included in our inventory balance was \$4.6 million at March 31, 2012.

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 effect of adjusting the rate for all expense amortization after April 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher or lower than the estimated forfeiture rate, then an adjustment is made to increase or decrease the estimated forfeiture rate, which will result in a decrease or increase to the expense recognized in our financial statements. If forfeiture adjustments are made, they would affect our gross margin, research and development expenses, and selling, general, and administrative expenses. The effect of forfeiture adjustments in fiscal 2012 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

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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.

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 fabs, approximately \$6.7 million and \$22.3 million was charged directly to cost of sales in fiscal 2012 and 2010, respectively. There were no such charges in fiscal 2011.

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 in 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 where it is more likely than not that some portion, or all of such assets, will not be realized. At March 31, 2012, the valuation allowances totaled \$78.5 million and consists of state net operating loss carryforwards, foreign tax credits and state tax credits. 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, 2012, our gross deferred tax asset was \$91.2 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. We are currently under audit by the U.S. Internal Revenue Service (IRS) for our fiscal years 2009 and 2010. Fiscal years 2011 and 2012 are open for examination by tax authorities. 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 appropriate 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. Additionally, certain embedded features of the debentures qualify as derivatives and are bundled as a compound embedded derivative that is measured at fair value. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price trigger or other contingent conversion feature has been met. We apply the treasury stock method as we have 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 \$27.94 at March 31, 2012, and adjusts as dividends are recorded in the future.

Contingencies

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

Results of Continuing Operations

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

	Year Ended March 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	42.7	41.2	43.6
Gross profit	57.3	58.8	56.4
Research and development	13.2	11.5	12.8
Selling, general and administrative	15.3	15.3	17.7
Special charges	0.1	0.1	0.1
Operating income	28.7%	31.9%	25.8%

Net Sales

We operate in two industry segments and engage primarily in the design, development, manufacture and marketing of semiconductor products as well as the licensing of Flash intellectual property. We sell our products to distributors and original equipment manufacturers, referred to as OEMs, in a broad range of market segments, 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 \$1,383.2 million in fiscal 2012 decreased by \$104.0 million, or 7.0%, over fiscal 2011, and our net sales of \$1,487.2 million in fiscal 2011 increased by \$539.5 million, or 56.9%, over fiscal 2010. The decrease in net sales in fiscal 2012 over fiscal 2011 was due primarily to weak general economic and semiconductor industry conditions. The increase in net sales in fiscal 2011 over fiscal 2010 was due primarily to improving semiconductor industry conditions, market share gains in our microcontroller and analog product lines, and an increase in net sales due to our acquisition of SST. Average selling prices for our semiconductor products were essentially flat in fiscal 2012 over fiscal 2011 and were down approximately 1% in fiscal 2011 over fiscal 2010. The number of units of our semiconductor products sold was down approximately 8% in fiscal 2012 over fiscal 2011 and up approximately 54% in fiscal 2011 over fiscal 2010. 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 SST;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- our new product offerings that have increased our served available market; and
- continued market share gains in the segments of the markets we address.

Sales by product line for the fiscal years ended March 31, 2012, 2011 and 2010 were as follows (dollars in thousands):

	Year Ended March 31,					
	2012	%	2011	%	2010	%
Microcontrollers	\$ 928,509	67.1	\$ 1,013,937	68.2	\$ 767,723	81.0
Memory products	179,217	13.0	221,219	14.9	80,158	8.5
Analog and interface products	171,165	12.4	177,994	12.0	99,848	10.5
Technology licensing	87,001	6.3	72,068	4.8	—	—
Other	17,284	1.2	1,987	0.1	—	—
Total Sales	\$ 1,383,176	100.0	\$ 1,487,205	100.0	\$ 947,729	100.0

Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 67.1% of our total net sales in fiscal 2012, approximately 68.2% of our total net sales in fiscal 2011 and 81.0% of our total net sales in fiscal 2010. The primary reason for the decrease in our microcontroller net sales as a percentage of our total net sales in fiscal 2011 compared to fiscal 2010 was our acquisition of SST which resulted in an increase in our memory product and technology licensing sales.

Net sales of our microcontroller products decreased approximately 8.4% in fiscal 2012 compared to fiscal 2011, and increased approximately 32.1% in fiscal 2011 compared to fiscal 2010. The decrease in net sales in fiscal 2012 compared to fiscal 2011 and the increase in net sales in fiscal 2011 compared to fiscal 2010 resulted primarily from changes in general economic and semiconductor industry conditions in the end markets that we serve including the consumer, automotive, industrial control, communications and computing markets, as well as market share gains.

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.

Memory Products

Sales of our memory products accounted for approximately 13.0% of our total net sales in fiscal 2012, approximately 14.9% of our total net sales in fiscal 2011 and approximately 8.5% of our total net sales in fiscal 2010. The primary reason for the increase in our memory product net sales as a percentage of our total net sales in fiscal 2011 compared to the prior fiscal year was our acquisition of SST's SuperFlash memory products.

Net sales of our memory products decreased approximately 19.0% in fiscal 2012 compared to fiscal 2011, and increased approximately 176% in fiscal 2011 compared to fiscal 2010. Excluding our SST memory product sales, our memory product sales increased approximately 20.0% in fiscal 2011 compared to fiscal 2010. The decrease in memory product net sales in fiscal 2012 compared to fiscal 2011 was driven primarily by adverse customer demand conditions within the Serial EEPROM and Flash memory markets and weak general economic and semiconductor industry conditions. The increase in memory product net sales in fiscal 2011 compared to fiscal 2010 was driven primarily by increased revenue due to our acquisition of SST, improving semiconductor industry conditions and by 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.

Analog and Interface Products

Sales of our analog and interface products accounted for approximately 12.4% of our total net sales in fiscal 2012, approximately 12.0% of our total net sales in fiscal 2011 and approximately 10.5% of our total net sales in fiscal 2010.

Net sales of our analog and interface products decreased approximately 3.8% in fiscal 2012 compared to fiscal 2011 and increased approximately 78.3% in fiscal 2011 compared to fiscal 2010. The decrease in net sales in fiscal 2012 compared to fiscal 2011 was driven primarily by weak general economic and semiconductor industry conditions which offset market share gains achieved within the analog and interface market. The increase in net sales in fiscal 2011 compared to fiscal 2010 was driven primarily by improving semiconductor industry conditions, market share gains achieved within the analog and interface market and increased revenue due to our acquisition of SST.

Analog and interface products can be proprietary or non-proprietary in nature. Currently, we consider more than 70% of our analog and interface product mix to be proprietary in nature, where prices are relatively stable, similar to the pricing

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stability experienced in our microcontroller products. The non-proprietary portion of our analog and interface 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 and interface 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 and interface products will increase over time.

Technology Licensing

Technology licensing revenue includes a combination of royalties associated with technology licensed for the use of our SuperFlash technology and fees for engineering services. Technology licensing accounted for approximately 6.3% of our total net sales in fiscal 2012 and approximately 4.8% of our total net sales in fiscal 2011. Technology licensing revenue is the result of our acquisition of SST in the first quarter of fiscal 2011.

Net sales related to our technology licensing increased approximately 20.7% in fiscal 2012 compared to fiscal 2011 driven primarily by the adoption of our technology by more manufacturers of semiconductors.

Revenue from technology licensing can fluctuate over time due to general economic and semiconductor industry conditions.

Other

Revenue from assembly and test subcontracting services accounted for approximately 1.2% of our total net sales in fiscal 2012 and approximately 0.1% of our total net sales in fiscal 2011. Our assembly and test subcontractors services are a result of our acquisition of Millennium Microtech Thailand (MMT) in the fourth quarter of fiscal 2011.

Distribution

Distributors accounted for approximately 59% of our net sales in fiscal 2012, approximately 58% of our net sales in fiscal 2011 and approximately 61% of our net sales in fiscal 2010.

Our largest distributor accounted for approximately 10% of our net sales in each of fiscal 2012 and fiscal 2011, and approximately 12% of our net sales in fiscal 2010. Our two largest distributors together accounted for approximately 14% of our net sales in each of fiscal 2012 and fiscal 2011, and approximately 17% of our net sales in fiscal 2010.

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, 2012, our distributors maintained 31 days of inventory of our products compared to 40 days at March 31, 2011 and 41 days at March 31, 2010. Over the past three fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 31 days and 46 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.

Sales by Geography

Sales by geography for the fiscal years ended March 31, 2012, 2011 and 2010 were as follows (dollars in thousands):

	Year Ended March 31,					
	2012	%	2011	%	2010	%
Americas	\$ 290,392	21.0	\$ 310,735	20.9	\$ 231,398	24.4
Europe	319,881	23.1	334,911	22.5	237,354	25.1
Asia	772,903	55.9	841,559	56.6	478,977	50.5
Total Sales	\$ 1,383,176	100.0	\$ 1,487,205	100.0	\$ 947,729	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.

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Sales to foreign customers accounted for approximately 82% of our net sales in fiscal 2012, approximately 80% of our net sales in fiscal 2011 and approximately 77% of our net sales in fiscal 2010. Substantially all of our foreign sales are U.S. dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their manufacturing operations to Asia and growth in demand from the emerging Asian market. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

Sales to customers in China, including Hong Kong, accounted for approximately 24% of our net sales in fiscal 2012 and approximately 25% of our net sales in each of fiscal 2011 and 2010. Sales to customers in Taiwan accounted for approximately 15% of our net sales in fiscal 2012, approximately 13% of our net sales in fiscal 2011 and approximately 10% of our net sales in fiscal 2010. 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 \$792.4 million in fiscal 2012, \$874.4 million in fiscal 2011 and \$534.2 million in fiscal 2010. Gross profit as a percent of sales was 57.3% in fiscal 2012, 58.8% in fiscal 2011 and 56.4% in fiscal 2010.

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 under absorption of fixed costs, in the first half of fiscal 2010 and second half of fiscal 2012, compared to production levels being at or above the range of our normal capacity levels in the second half of fiscal 2010, all of fiscal 2011 and the first half of fiscal 2012;
- for each of fiscal 2012 and fiscal 2011, inventory write-downs being higher than the gross margin impact of sales of inventory that was previously written down;
- the addition of licensing and SuperFlash Memory revenue starting in fiscal 2011 as a result of our acquisition of SST; 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. Our wafer fabrication facilities operated at or above normal capacity levels, which we typically consider to be 90% to 95% of the actual capacity of the installed equipment, during the second half of fiscal 2010 through the first half of fiscal 2012. However, during the first half of fiscal 2010 and the second half of fiscal 2012, we operated below normal capacity levels in our wafer fabrication facilities in response to weaker economic conditions. As a result of decreased production in our wafer fabs, approximately \$6.7 million was charged to cost of sales in fiscal 2012 and approximately \$22.3 million was charged to cost of sales in fiscal 2010. There were no such charges in fiscal 2011. In the future, if production levels are below normal capacity, we will charge cost of sales for the unabsorbed capacity. During the first half of fiscal 2010 and the second half of fiscal 2012, we operated at levels below the total operating capacity of our Thailand facility due to adverse business conditions and these actions had a negative impact on our gross margins. During the second half of fiscal 2010 through the first half of fiscal 2012, we operated at normal levels of capacity at our Thailand facility, and we selectively increased our assembly and test capacity at such facility.

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

Our overall inventory levels were \$217.3 million at March 31, 2012, compared to \$180.8 million at March 31, 2011 and \$116.6 million at March 31, 2010. We maintained 137 days of inventory on our balance sheet at March 31, 2011 compared to 107 days of inventory at March 31, 2011 and 97 days at March 31, 2010. We expect our inventory levels in the June 2012 quarter to be about flat to the levels at March 31, 2012. We believe this level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers and allow us to keep our fiscal 2013 capital expenditures at low levels.

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We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog and interface, 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.

At March 31, 2012, approximately 67% of our assembly requirements were performed in our Thailand facility, compared to approximately 61% at March 31, 2011 and approximately 65% at March 31, 2010. The percentage of our assembly work that is performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry and our internal capacity capabilities. Third-party contractors located in Asia perform the balance of our assembly operations. At March 31, 2012, approximately 95% of our test requirements were performed in our Thailand facility compared to approximately 88% in fiscal 2011. In fiscal 2010, substantially all of our test requirements were performed in our Thailand facility. We believe that the assembly and test operations performed at our Thailand facility 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. The primary reason for the decrease in the portion of assembly and test operations performed in our Thailand facility in fiscal 2011 compared to fiscal 2010 was due to our acquisition of SST which had outsourced 100% of its assembly and test operations prior to being acquired by Microchip. We plan to continue to bring a portion of SST's assembly and test volume into our Thailand facilities over time.

We rely on outside wafer foundries for a portion of our wafer fabrication requirements. As a result of our acquisition of SST in the first quarter of fiscal 2011, we have become more reliant on outside foundries for our wafer fabrication requirements. In fiscal 2012, approximately 20% of our total net sales related to products which were purchased from outside wafer foundries.

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 2012 were \$182.7 million, or 13.2% of sales, compared to \$170.6 million, or 11.5% of sales, for fiscal 2011 and \$120.8 million, or 12.8% of sales, for fiscal 2010. 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 \$12.1 million, or 7.1%, for fiscal 2012 over fiscal 2011. The primary reasons for the dollar increase in R&D costs in fiscal 2012 compared to fiscal 2011 were an increased number of employees driving higher employee costs and higher discretionary expenses offset by lower bonus costs. R&D expenses increased \$49.8 million, or 41.2%, for fiscal 2011 over fiscal 2010. The primary reasons for the dollar increase in R&D costs in fiscal 2011 compared to fiscal 2010 were higher salary and bonus costs and additional costs from our acquisition of SST.

Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2012 were \$212.4million, or 15.3% of sales, compared to \$227.8 million, or 15.3% of sales, for fiscal 2011, and \$167.2 million, or 17.7% of sales, for fiscal 2010. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses. Selling, general and administrative expenses also include costs related to our direct sales force and field applications engineers who work in sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased \$15.4million, or 6.8%, for fiscal 2012 over fiscal 2011. The primary reasons for the dollar decrease in selling, general and administrative expenses in fiscal 2012 over fiscal 2011 were

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lower bonus costs. Selling, general and administrative expenses increased \$60.6 million, or 36.2%, for fiscal 2011 over fiscal 2010. The primary reasons for the dollar increase in selling, general and administrative expenses in fiscal 2011 over fiscal 2010 were higher salary and bonus costs and additional costs from our acquisition of SST.

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

Special Charges

Acquisition Related Expenses

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

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.

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.

Other Income (Expense)

Interest income in fiscal 2012 increased to \$18.0 million from \$16.0 million in fiscal 2011 and from \$15.3 million in fiscal 2010. The primary reasons for the increase in interest income in fiscal 2012 over fiscal 2011 relates to the redemption of a previously written down auction rate security at par value and higher invested cash balances. The primary reason for the increase in interest income in fiscal 2011 over fiscal 2010 was a higher rate of return realized on certain of our investments. Interest expense in fiscal 2012 was \$34.3 million compared to \$31.5 million in fiscal 2011 and \$31.2 million in fiscal 2010. The primary reasons for the increase in interest expense in fiscal 2012 over fiscal 2011 were \$1.7 million related to our credit facility and \$0.7 million of additional non-cash interest expense on our 2.125% junior subordinated convertible debentures. Other expense, net in fiscal 2012 was \$0.4 million compared to other income, net of \$1.9 million in fiscal 2011 and other income, net of \$8.7 million in fiscal 2010. The change in other (expense) income, net during fiscal 2012 compared to fiscal 2011 primarily relates to \$1.3 million of losses on equity securities during fiscal 2012 compared to \$2.4 million of gains on equity securities during fiscal 2011. These losses and gains were a result of impairment charges due to market fluctuations in the value of certain investments in publicly traded companies, as well as dividends received and losses and gains recognized on the sale of these equity securities. The decrease in other income, net during fiscal 2011 compared to fiscal 2010 primarily relates to \$7.5 million of gains on trading securities during fiscal 2010. These gains were a result of market fluctuations in the value of certain strategic investments in publicly traded companies, which we classified as trading securities.

Provision for Income Taxes

Provisions for income taxes reflect tax on our foreign earnings and federal and state tax on our U.S. earnings. Our effective tax rate on income from continuing operations was 11.3% in fiscal 2012, 6.8% in fiscal 2011 and 8.8% in fiscal 2010. Excluding one-time tax events described below, our effective tax rate is lower than statutory rates in the U.S. primarily due to our mix of earnings in foreign jurisdictions with lower tax rates, changes in tax regulations and the R&D tax credit. 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%. Our effective tax rate in fiscal 2011 includes a \$24.4 million benefit related to various items including a settlement with the IRS for our fiscal 2006 through fiscal 2008 tax audits, the expiration of the statute of limitations on various tax reserves, and a charge related to a corporate restructuring. This benefit reduced our effective tax rate from continuing operations by 5.4 percentage points to an effective tax rate of 6.8%. Our effective tax rate in

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fiscal 2010 includes a \$8.5 million U.S. tax benefit related to our settlement with the IRS for our fiscal 2002 through fiscal 2004 tax audits. This benefit reduced our effective tax rate by 3.6 percentage points to an effective tax rate of 8.8%.

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. We are currently under audit by the IRS for our fiscal years 2009 and 2010. Fiscal years 2011 and 2012 are open for examination by tax authorities. 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 and any expiration of our tax holidays in Thailand are expected to have a minimal impact on our overall tax expense due to other tax holidays and increases in income in other taxing jurisdictions with lower statutory rates.

Results of Discontinued Operations

As a result of our acquisition of SST, certain of SST's product lines were marketed for sale based on management's decision regarding them not being a strategic fit into our product portfolio. The discontinued businesses include various memory product lines. For financial statement purposes, the net assets and results of operations for these discontinued businesses have been segregated from those of the continuing operations and are presented in our consolidated financial statements as discontinued operations and assets held for sale. On May 21, 2010, we completed a transaction to sell one of the businesses acquired from SST to Greenliant Systems, Ltd. The sale price in this transaction was determined by management to represent fair value, and accordingly, no gain or loss was recognized on the sale of the net assets. In this sale, we disposed of approximately \$23.6 million of assets held for sale, primarily comprised of inventory, property, plant and equipment, intangible assets and non-marketable securities. Consideration in the transaction was in the form of cash and notes receivable from Greenliant Systems, Ltd. On July 8, 2010, we granted an exclusive limited license for certain Serial NOR-Flash products to Professional Computer Technology, Ltd. (PCT). The license is limited to certain industry segments and geographic regions and excludes certain multinational customers. PCT has no license to sell these products to any other industry segment or geographic region other than as set forth in our agreement with them.

The net loss from discontinued operations in fiscal 2011 was \$10.2 million, or \$0.05 per diluted share. Contributing to the net loss from discontinued operations in fiscal 2011 was \$9.4 million of inventory write-downs related to discontinued operations. There were no assets held for sale on our consolidated balance sheet for the fiscal years ended March 31, 2012 or March 31, 2011.

Liquidity and Capital Resources

We had \$1,787.6 million in cash, cash equivalents and short-term and long-term investments at March 31, 2012, an increase of \$79.3 million from the March 31, 2011 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 by dividend payments of \$266.2 million during fiscal 2012.

Net cash provided from operating activities was \$396.5 million for fiscal 2012, \$582.7 million for fiscal 2011 and \$452.0 million for fiscal 2010. The decrease in cash flow from operations in fiscal 2012 compared to fiscal 2011 was primarily due to changes in our operating assets and liabilities and lower net income in fiscal 2012. The increase in cash flow from operations in fiscal 2011 compared to fiscal 2010 was primarily due to higher net income in fiscal 2011 partially offset by fiscal 2010 proceeds of \$87.0 million of trading securities which were sold during that year.

Net cash used in investing activities was \$256.5 million for fiscal 2012, \$187.9 million for fiscal 2011 and \$195.3 million in fiscal 2010. The increase in net cash used in investing activities in fiscal 2012 compared to fiscal 2011 was primarily due to a decrease in cash related to changes in our net purchases, sales and maturities of short-term and long-term investments which offset lower capital expenditures in fiscal 2012. The decrease in net cash used in investing activities in fiscal 2011 compared to fiscal 2010 was primarily due to an increase in cash related to changes in our net purchases, sales and maturities of short-term and long-term investments being partially offset by cash used to acquire SST and higher capital expenditures in fiscal 2011.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were \$62.4 million in fiscal 2012, \$124.5 million in fiscal 2011 and \$47.6 million in fiscal 2010. The lower capital expenditure activity in fiscal 2012 compared to fiscal 2011 was primarily driven by decreased production requirements as a result of economic conditions. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately \$70 million during the next twelve months to invest in equipment and facilities to maintain, and selectively increase, capacity to meet our currently anticipated needs.

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

Net cash used in financing activities was \$208.1 million for fiscal 2012, \$183.0 million for fiscal 2011 and \$211.0 million for fiscal 2010. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were \$57.5 million for fiscal 2012, \$71.9 million for fiscal 2011 and \$36.5 million for fiscal 2010. We paid cash dividends to our shareholders of \$266.2 million in fiscal 2012, \$256.8 million in fiscal 2011, and \$249.6 million in fiscal 2010.

On August 12, 2011, we entered into a credit agreement with certain lenders. The credit agreement provides for a \$750 million revolving credit facility, with a \$100 million foreign currency sublimit, a \$25 million letter of credit sublimit and a \$15 million swingline loan sublimit, terminating on August 12, 2016. The credit agreement also contains an increase option permitting us, subject to certain requirements, to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$250 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. No loans were made nor letters of credit issued under the credit agreement at closing, and no amounts were outstanding and no letters of credit were issued at March 31, 2012. See Note 15 of the notes to consolidated financial statements for more information regarding the credit agreement.

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, 2012, 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, 2012, 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, 2012, we held approximately 25.6 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 \$1.67 billion. During fiscal 2012, we paid dividends in the amount of \$1.390 per share for a total dividend payment of \$266.2 million. During fiscal 2011, we paid dividends in the amount of \$1.374 per share for a total dividend payment of \$256.8 million. During fiscal 2010, we paid dividends in the amount of \$1.359 per share for a total dividend payment of \$249.6 million. On May 1, 2012, we declared a quarterly cash dividend of \$0.35 per share, which will be paid on May 31, 2012, to stockholders of record on May 17, 2012 and the total amount of such dividend is expected to be approximately \$67.8 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 and our results of operations.

On May 2, 2012, we announced that we had signed a definitive agreement to acquire SMSC for \$37.00 per share in cash, which represents a total equity value of about \$939 million, and a total enterprise value of about \$766 million, after excluding SMSC's cash and investments on its balance sheet of approximately \$173 million. The acquisition has been approved by our Board of Directors and by the SMSC Board of Directors and is expected to close in the third quarter of calendar 2012, subject

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to approval by SMSC stockholders, regulatory approvals and other customary closing conditions. We plan to fund the acquisition purchase price using a portion of our existing balance of cash, cash equivalents and short-term investments and borrowings under our credit agreement.

We believe that our existing sources of liquidity combined with cash generated from operations 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 seek additional equity or debt financing from time to time to maintain or expand our wafer fabrication and product assembly and test facilities, or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2012, 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, 2012 (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	\$ 30,477	\$ 9,293	\$ 11,815	\$ 6,676	\$ 2,693
Capital purchase obligations ⁽¹⁾	13,265	13,265	—	—	—
Other purchase obligations and commitments ⁽²⁾	21,360	21,062	193	105	—
2.125% junior convertible debentures – principal and interest ⁽³⁾	1,778,247	24,438	48,875	48,875	1,656,059
Total contractual obligations ⁽⁴⁾	\$ 1,843,349	\$ 68,058	\$ 60,883	\$ 55,656	\$ 1,658,752

⁽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, 2012, 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 \$19.5 million for delivery in fiscal 2013.

⁽³⁾ For purposes of this table we have assumed that the principal of our convertible debentures will be paid on December 31, 2037.

⁽⁴⁾ 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 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.

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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, 2012, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recently Issued Accounting Pronouncements

Goodwill. In September 2011, the FASB issued an amendment to the existing guidance on the annual testing of goodwill for impairment. The amended guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is effective for annual and interim periods beginning after December 15, 2011, with early adoption permitted. We early adopted this pronouncement, effective for our March 31, 2012 impairment assessment.

Comprehensive Income. In June 2011, the FASB issued an amendment to the existing guidance on the presentation of comprehensive income. Under the amended guidance, entities have the option to present the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities no longer have the option of presenting the components of other comprehensive income within the statement of changes in stockholders' equity. This amendment is effective on a retrospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for us is the first quarter in fiscal 2013. The adoption of this amendment will result in a change to the current presentation of comprehensive income, but will not have any impact on our consolidated financial statements and related disclosures.

Fair Value Measurement. In May 2011, the FASB issued amendments to the existing guidance on fair value measurement. The amendments are intended to create consistency between U.S. generally accepted accounting standards and International Financial Reporting Standards on measuring fair value and disclosing information about fair value measurements. The amendments clarify the application of existing fair value measurement requirements including (i) the application of the highest and best use valuation premise concepts, (ii) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity, and (iii) quantitative information required for fair value measurements categorized within Level 3. In addition, the amendments require additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. These amendments are effective for interim and annual periods beginning after December 15, 2011, which for us is our fiscal year 2013. These changes are required to be applied prospectively. We do not anticipate that the adoption of these amendments will 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 \$1,787.6 million as of March 31, 2012 compared to \$1,708.3 million as of March 31, 2011. 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,					
	2013	2014	2015	2016	2017	Thereafter
Available-for-sale securities	\$ 270,017	\$ 356,718	\$ 484,985	—	—	\$ 30,230
Weighted-average yield rate	1.93%	1.51%	1.11%	—	—	1.43%