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 in the June 2016 quarter will increase from 1 to 9 days from the March 2016 levels, not including the impact from inventory acquired from our Atmel acquisition, and that it will allow us to maintain competitive lead times and provide strong delivery performance to our customers;
- 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, mixed signal and timing 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 our determinations with respect to the tax consequences of the Atmel acquisition are reasonable;

- That if the UK leaves the EU, we may lose our ability to import and export products tax-free throughout Europe which may increase the costs to us for the import and sale of our products to our customers, result in a decrease in sales to certain of our customers or disrupt our operations and product shipments;
- 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 material 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 our 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 the 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 36, we discuss our Results of Operations for fiscal 2016 compared to fiscal 2015, and for fiscal 2015 compared to fiscal 2014. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in the sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control solutions, including general purpose and specialized microcontrollers, development tools and related software, analog, interface, mixed signal and timing products, wired and wireless connectivity products, memory products and technology licensing. We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, 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. We license our SuperFlash technology and other technologies to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of advanced microcontroller products, gate array, RF and analog products that require embedded non-volatile memory.

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, 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 client engagement manager (CEMs), embedded system engineer (ESEs), 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 ESE team is to provide technical assistance to strategic accounts and to conduct periodic training sessions for CEMs and distributor sales teams. ESEs 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.

See "Our operating results are impacted by both seasonality and the wide fluctuation of supply and demand in the semiconductor industry," on page 15 for discussion of the impact of seasonality on our business.

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, senior and 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, 2016, we had approximately $267.2 million of deferred revenue and $83.8 million in deferred cost of sales recognized as $183.4 million of deferred income on shipments to distributors. At March 31, 2015, we had approximately $260.9 million of deferred revenue and $94.8 million in deferred cost of sales recognized as $166.1 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 $102.9 million at March 31, 2016 and $116.0 million at March 31, 2015. 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. Under the acquisition method of accounting, the aggregate amount of consideration we pay for a company is allocated to net tangible assets and intangible assets based on their estimated fair values as of the acquisition date. The excess of the purchase price over the value of the net tangible assets and intangible assets is recorded to goodwill. On an annual basis, we test goodwill for impairment and through March 31, 2016, we have never recorded an impairment charge against our goodwill balance.

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 2016 was $71.4 million, of which $63.1 million was reflected in operating expenses. Total share-based compensation included in cost of sales in fiscal 2016 was $8.3 million. Total share-based compensation included in our inventory balance was $6.2 million at March 31, 2016.

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 2016 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 production below normal operating levels in our wafer fabrication facilities, approximately $1.9 million, $0.8 million and $19.0 million was charged directly to cost of sales in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have provided valuation allowances for certain of our deferred tax assets, including state net operating loss carryforwards, foreign tax credits and state tax credits, where it is more likely than not that some portion, or all of such assets, will not be realized. At March 31, 2016, the valuation allowances totaled $161.8 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, 2016, our deferred tax asset, net of valuation allowances, was $122.2 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 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.

Senior and Junior Subordinated Convertible Debentures

We separately account for the liability and equity components of our senior and 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 senior and junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have 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 senior and 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 prices per share, which were $66.05 and $24.31 for the senior and junior subordinated convertible debentures, respectively, atMarch 31, 2016 and adjusts as dividends are recorded in the future.

Contingencies

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

Results of Operations

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

	Year Ended March 31,		
	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	44.5	42.7	41.6
Gross profit	55.5	57.3	58.4
Research and development	17.1	16.3	15.8
Selling, general and administrative	13.9	12.8	13.8
Amortization of acquired intangible assets	8.1	8.3	4.9
Special charges	0.2	0.1	0.1
Operating income	16.2%	19.8%	23.8%

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 our SuperFlash and other technologies. We sell our products to distributors and 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 $2,173.3 million in fiscal 2016 increased by $26.3 million, or 1.2%, over fiscal 2015, and our net sales of $2,147.0 million in fiscal 2015 increased by $215.8 million, or 11.2%, from fiscal 2014. The increase in net sales in fiscal 2016 over fiscal 2015 was due primarily to our acquisition of Micrel, offset in part by weaker general economic and semiconductor industry conditions. The increase in net sales in fiscal 2015 over fiscal 2014 was due primarily to our acquisitions of ISSC and Supertex, market share gains and improved general economic and semiconductor industry conditions in the end markets we serve. Average selling prices for our semiconductor products were down approximately 3% in fiscal 2016 over fiscal 2015 and were up approximately 2% in fiscal 2015 over fiscal 2014. The number of units of our semiconductor products sold was up approximately 6% in fiscal 2016 over fiscal 2015 and up approximately 11% in fiscal 2015 over fiscal 2014. 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:

- our acquisition of Micrel, which closed on August 3, 2015;
- global economic conditions in the markets we serve;
- semiconductor industry conditions;
- our acquisition of ISSC on July 17, 2014;
- our acquisition of Supertex on April 1, 2014;
- our new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products; and
- continued market share gains in the segments of the markets we address.

Net sales by product line for fiscal 2016, 2015 and 2014 were as follows (dollars in thousands):

	Year Ended March 31,					
	2016	%	2015	%	2014	%
Microcontrollers	$ 1,345,499	61.9	$ 1,393,607	64.9	$ 1,260,988	65.3
Analog, interface, mixed signal and timing products	595,455	27.4	501,048	23.3	428,088	22.2
Memory products	116,945	5.4	132,258	6.2	134,624	7.0
Technology licensing	89,124	4.1	89,593	4.2	94,578	4.9
Other	26,311	1.2	30,530	1.4	12,939	0.6
Total net sales	$ 2,173,334	100.0	$ 2,147,036	100.0	$ 1,931,217	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 61.9% of our net sales in fiscal 2016, approximately 64.9% of our net sales in fiscal 2015 and approximately 65.3% of our net sales in fiscal 2014.

Net sales of our microcontroller products decreased approximately 3.5% in fiscal 2016 compared to fiscal 2015, and increased approximately 10.5% in fiscal 2015 compared to fiscal 2014. The decrease in net sales in fiscal 2016 compared to fiscal 2015 resulted primarily from weaker 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 2015 compared to fiscal 2014 resulted primarily from our acquisition of ISSC in the second quarter of fiscal 2015, market share gains and improved general economic and semiconductor industry conditions in the end markets we serve.

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, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 27.4% of our net sales in fiscal 2016, approximately 23.3% of our net sales in fiscal 2015 and approximately 22.2% of our net sales in fiscal 2014.

Net sales of our analog, interface, mixed signal and timing products increased approximately 18.8% in fiscal 2016 compared to fiscal 2015 and increased approximately 17.0% in fiscal 2015 compared to fiscal 2014. The increase in net sales in fiscal 2016 compared to fiscal 2015 was driven primarily by our acquisition of Micrel in the second quarter of fiscal 2016 and market share gains achieved within the analog, interface, mixed signal and timing market. The increase in net sales in fiscal 2015 compared to fiscal 2014 was driven primarily by our acquisition of Supertex in the first quarter of fiscal 2015, improved general economic and semiconductor industry conditions and market share gains achieved within the analog, interface, mixed signal and timing market.

Analog, interface, mixed signal and timing products can be proprietary or non-proprietary in nature. Currently, we consider more than a majority of our analog, interface, mixed signal and timing 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, mixed signal and timing 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, mixed signal and timing 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, mixed signal and timing products will increase over time.

Memory Products

Sales of our memory products accounted for approximately 5.4% of our net sales in fiscal 2016, approximately 6.2% of our net sales in fiscal 2015 and approximately 7.0% of our net sales in fiscal 2014.

Net sales of our memory products decreased approximately 11.6% in fiscal 2016 compared to fiscal 2015, and decreased approximately 1.8% in fiscal 2015 compared to fiscal 2014. The decreases in memory product net sales in fiscal 2016 compared to fiscal 2015 and in fiscal 2015 compared to fiscal 2014 were driven primarily by adverse customer demand conditions within the Serial EEPROM and Flash memory markets.

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

Technology Licensing

Technology licensing revenue includes a combination of royalties associated with licenses for the use of our SuperFlash and other technologies and fees for engineering services. Technology licensing accounted for approximately 4.1% of our net sales in fiscal 2016, approximately 4.2% of our net sales in fiscal 2015 and approximately 4.9% of our net sales in fiscal 2014.

Net sales related to our technology licensing decreased approximately 0.5% in fiscal 2016 compared to fiscal 2015 and decreased approximately 5.3% in fiscal 2015 compared to fiscal 2014. Revenue from technology licensing can fluctuate over time based on the production activities of our licensees as well as general economic and semiconductor industry conditions.

Other

Revenue from wafer foundry and assembly and test subcontracting services accounted for approximately 1.2% of our net sales in fiscal 2016, approximately 1.4% of our net sales in fiscal 2015 and approximately 0.6% of our net sales in fiscal 2014.

Distribution

Distributors accounted for approximately 53% of our net sales in fiscal 2016, approximately 51% of our net sales in fiscal 2015 and approximately 53% of our net sales in fiscal 2014.

Our two largest distributors together accounted for approximately 12% of our net sales in each of fiscal 2016 and 2015, and approximately 14% of our net sales in fiscal 2014. No single distributor accounted for more than 10% of our net sales in fiscal 2016, 2015 or 2014.

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, 2016, our distributors maintained 32 days of inventory of our products compared to 37 days at March 31, 2015 and 33 days at March 31, 2014. Over the past five 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 2016, 2015 and 2014 were as follows (dollars in thousands):

	Year Ended March 31,					
	2016	%	2015	%	2014	%
Americas	$ 417,579	19.2	$ 421,947	19.7	$ 365,609	18.9
Europe	474,629	21.8	452,165	21.0	411,531	21.3
Asia	1,281,126	59.0	1,272,924	59.3	1,154,077	59.8
Total net sales	$ 2,173,334	100.0	$ 2,147,036	100.0	$ 1,931,217	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 each of fiscal 2016, 2015 and 2014. 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 30%, 28% and 29% of our net sales in fiscal 2016, 2015 and 2014, respectively. Sales to customers in Taiwan accounted for approximately 12%, 14% and 13% of our net sales in fiscal 2016, 2015 and 2014, respectively. 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 $1,205.5 million in fiscal 2016, $1,229.6 million in fiscal 2015 and $1,128.7 million in fiscal 2014. Gross profit as a percentage of sales was 55.5% in fiscal 2016, 57.3% in fiscal 2015 and 58.4% in fiscal 2014.

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

- charges of approximately $44.9 million in fiscal 2016 and approximately $24.4 million in fiscal 2015 related to the recognition of acquired inventory at fair value as a result of our acquisitions which increased the value of our acquired inventory and subsequently increased our cost of sales and reduced our gross margins;
- for each of fiscal 2016 and fiscal 2015, 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, interface, mixed signal and timing 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 the third quarter of fiscal 2016, the first quarter of fiscal 2015 and all of fiscal 2014 in response to uncertain global economic conditions and our inventory position. As a result of production being below normal operating levels in our wafer fabs, approximately $1.9 million, $0.8 million and $19.0 million was charged to cost of sales in fiscal 2016, fiscal 2015 and fiscal 2014, respectively. Our wafer fabrication facilities operated at normal capacity levels during the fourth quarter of fiscal 2016. In the future, if production levels are below normal capacity, we will charge cost of sales for the unabsorbed capacity. We operated at slightly below normal capacity levels in our Thailand assembly and test facilities during the third quarter of fiscal 2016. As a result, we charged cost of sales approximately

$1.0 million during fiscal 2016. During fiscal 2015 and fiscal 2014, we operated at normal levels of capacity at our Thailand assembly and test facilities, and we selectively increased our assembly and test capacity at such facilities during such time.

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. Substantially all of our production has been on 8-inch wafers during the periods covered by this report.

Our overall inventory levels were $306.8 million at March 31,2016, compared to $279.5 million at March 31,2015 and $262.7 million at March 31, 2014. We maintained 110 days of inventory on our balance sheet at March 31, 2016 compared to 111 days of inventory at March 31,2015 and 118 days at March 31, 2014. We expect our inventory levels in the June 2016 quarter to increase from 1 to 9 days from the March 2016 levels, not including the impact from inventory acquired from our Atmel acquisition. We believe our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog, interface, mixed signal and timing 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 2016, approximately 53% of our assembly requirements were performed in our Thailand facilities, compared to approximately 57% during fiscal 2015 and approximately 51% during fiscal 2014. 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 2016, approximately 81% of our test requirements were performed in our Thailand facilities compared to approximately 88% during fiscal 2015 and approximately 86% during fiscal 2014. The primary reason for the percentage reduction in the assembly and test operations performed in our Thailand facilities in fiscal 2016 compared to the prior periods is our acquisition of Micrel, which outsourced these activities. Over time, we intend to migrate a portion of the outsourced assembly and test activities to our Thailand facilities. 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 each of fiscal 2016 and 2015, approximately 39% of our total net sales came from products that were produced at outside wafer foundries compared to approximately 38% during fiscal 2014.

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 2016 were $372.6 million, or 17.1% of sales, compared to $349.5 million, or 16.3% of sales, for fiscal 2015 and $305.0 million, or 15.8% of sales, for fiscal 2014. 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 $23.1 million, or 6.6%, for fiscal 2016 over fiscal 2015 primarily due to additional costs from our acquisition of Micrel as well as higher headcount costs. R&D expenses increased $44.5 million, or 14.6%, for fiscal 2015 over fiscal 2014. The primary reasons for the increase in R&D costs in fiscal 2015 compared to fiscal 2014 were additional costs from our acquisitions of Supertex and ISSC as well as 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 2016 were $301.7 million, or 13.9% of sales, compared to $274.8 million, or 12.8% of sales, for fiscal 2015, and $267.3 million, or 13.8% of sales, for fiscal 2014. 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 $26.9 million, or 9.8%, for fiscal 2016 over fiscal 2015 due primarily to additional costs from our acquisition of Micrel. Selling, general and administrative expenses increased $7.5 million, or 2.8%, for fiscal 2015 over fiscal 2014. The primary reasons for the increase in selling, general and administrative expenses in fiscal 2015 over fiscal 2014 were additional costs from our acquisitions of Supertex and ISSC and higher headcount costs partially offset by lower legal expenses.

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

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets in fiscal 2016 was $174.9 million compared to $176.7 million in fiscal 2015 and $94.5 million in fiscal 2014. The primary reasons for the decrease in acquired intangible asset amortization for fiscal 2016 compared to fiscal 2015 were decreased amortization from our customer-related intangible assets from our acquisition of SMSC partially offset by increased amortization from our acquisitions of Micrel and ISSC. The primary reasons for the increase in acquired intangible asset amortization for fiscal 2015 compared to fiscal 2014 were our acquisitions of Supertex and ISSC as well as increased amortization from our customer-related intangible assets from our acquisition of SMSC.

Special Charges

During fiscal 2016, we incurred special charges of $4.0 million comprised of $11.2 million related to severance, office closing and other costs associated with our acquisition activity and legal settlement costs of approximately $4.3 million partially offset by special income of $11.5 million related to an insurance settlement for reimbursement of funds we previously paid to settle a lawsuit in the second quarter of fiscal 2013. During fiscal 2015 and 2014, we incurred special charges of $2.8 million and $3.0 million, respectively, related to severance, office closing and other costs associated with our acquisition activity.

Other Income (Expense)

Interest income in fiscal 2016 was $24.4 million compared to $19.5 million in fiscal 2015 and $16.5 million in fiscal 2014. The primary reasons for the increases in interest income over these periods relates to higher yields on short-term cash investments and higher invested cash balances.

Interest expense in fiscal 2016 was $104.0 million compared to $62.0 million in fiscal 2015 and $48.7 million in fiscal 2014. The primary reasons for the increase in interest expense in fiscal 2016 compared to fiscal 2015 relates to non-cash interest expense from the amortization on the debt discount of our 1.625% senior subordinated convertible debentures and interest expense related to the 1.625% coupon on such debentures which were issued in February 2015. The increase in interest expense was partially offset by lower interest expense on our 2.125% junior subordinated convertible debentures as a result of our purchase of 50% of such outstanding debentures in the fourth quarter of fiscal 2015. The primary reasons for the increase in interest expense in fiscal 2015 compared to fiscal 2014 relates to non-cash interest expense from the amortization on the debt discount of our 1.625% senior subordinated convertible debentures which were issued in February 2015 and in increase in interest expense from our credit line borrowings.

Loss on retirement of convertible debentures in fiscal 2015 was $50.6 million. In February 2015, we acquired certain of our 2.125% junior subordinated convertible debentures with a $575.0 million aggregate principal amount for an aggregate purchase price of $1,134.6 million, based on market value. The transaction resulted in a loss on retirement of convertible debentures of approximately $50.6 million, which represented the difference between the fair value of the liability component at time of repurchase and the sum of the carrying values of the debt component and any unamortized debt issuance costs.

Other income, net in fiscal 2016 was $8.9 million compared to other income, net of $13.7 million in fiscal 2015 and other income, net of $5.9 million in fiscal 2014. The primary reason for the change in other income, net during fiscal 2016 compared to fiscal 2015 relates to lower realized gains on the sale of marketable equity and debt securities and losses resulting from derivative activity. The primary reasons for the change in other income, net during fiscal 2015 compared to fiscal 2014 relates to realized gains of $18.5 million from the sale of marketable equity and debt securities 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 benefit of 15.2% in fiscal 2016 and 5.6% in fiscal 2015 and an effective tax rate of 8.6% in fiscal 2014. Excluding certain 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 2016 includes $12.1 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves and $15.5 million of benefits related to intercompany prepaid tax amortization, which reduced our effective rate by 4.3% and 5.5%, respectively. Our effective tax rate in fiscal 2016 also includes a $2.5 million benefit received from the reinstatement of the R&D credit and a $13.5 million benefit received from current year generated R&D credits, which reduced our effective tax rate by 0.9% and 4.8%, respectively. Our effective tax rate in fiscal 2015 included $33.1 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves, which reduced our effective tax rate by 9.6%. Our effective tax rate in fiscal 2015 also included a $1.8 million benefit received from the reinstatement of the R&D credit, which reduced our effective tax rate by 0.5%. During fiscal 2014, our effective tax rate included $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% to an effective tax rate of 8.6%.

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. 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 $2,564.6 million in cash, cash equivalents and short-term and long-term investments at March 31, 2016, an increase of $222.4 million from the March 31, 2015 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 and increases in borrowings under our credit facility offset in part by our dividend payments of $291.1 million and $343.9 million of cash, net of cash acquired, used for our acquisition of Micrel.

Net cash provided from operating activities was $744.5 million for fiscal 2016, $721.2 million for fiscal 2015 and $676.6 million for fiscal 2014. The increase in cash flow from operations in fiscal 2016 compared to fiscal 2015 was primarily due to higher net sales and an increase in cash from changes in our operating assets and liabilities. The increase in cash flow from operations in fiscal 2015 compared to fiscal 2014 was primarily due to higher net sales during fiscal 2015.

Net cash provided by investing activities was $800.4 million for fiscal 2016. Net cash used in investing activities was $678.3 million for fiscal 2015 and $503.3 million in fiscal 2014. The primary reason for the increase in cash from investing activities in fiscal 2016 compared to fiscal 2015 was an increase in cash from our sales and maturities of available-for-sale investments of $1,112.6 million, offset in part by $343.9 million of cash consideration, net of $99.2 million of cash and cash equivalents acquired, used to finance our acquisition of Micrel in August 2015. The increase in net cash used in investing activities in fiscal 2015 compared to fiscal 2014 was due primarily to $252.5 million of cash consideration, net of $15.1 million of cash and cash equivalents acquired, used to finance our acquisition of ISSC in July 2014 and $375.4 million of cash consideration, net of $14.8 million of cash and cash equivalents acquired, used to finance our acquisition of Supertex in April 2014, offset in part by an increase in cash from our purchases, sales and maturities of available-for-sale investments in fiscal 2015 compared to the prior year.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were $97.9 million in fiscal 2016, $149.5 million in fiscal 2015 and $113.1 million in fiscal 2014. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately $140 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 $59.9 million for fiscal2016 compared to net cash provided by financing activities of $98.5million for fiscal 2015 and net cash used in financing activities of $235.0 million for fiscal 2014. We made payments on our borrowings under our credit agreements of $1,614.5 million during fiscal 2016, $2,047.6 million during fiscal 2015 and $1,103.5 million during fiscal 2014. Cash received on borrowings under our credit agreement totaled $2,204.5 million during fiscal 2016, $1,859.6 million during fiscal 2015 and $1,133.5 million during fiscal 2014. In February 2015, we issued $1,725.0 million principal amount of 1.625% senior subordinated convertible debentures due February 15, 2025. The debentures are subordinated to our senior debt, including amounts borrowed under our amended credit facility, but are senior to our outstanding 2.125% junior subordinated convertible debentures. Also, in February 2015, we acquired certain of our 2.125% junior subordinated convertible debentures with a $575.0 million aggregate principal amount for an aggregate purchase price of $1,134.6 million, based on market value. Cash expended for the repurchase of shares of our common stock was $363.8 million in fiscal 2016. We did not repurchase any shares of our common stock during fiscal 2015 or fiscal 2014. We paid cash dividends to our stockholders of $291.1 million in fiscal 2016, $286.5 million in fiscal 2015, and $281.2 million in fiscal 2014. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were $28.7 million for fiscal 2016, $34.4 million for fiscal 2015 and $60.1 million for fiscal 2014.

In February 2015, we amended our $2.0 billion credit agreement with certain lenders. As a result of such amendment, the revolving credit facility portion of the agreement was increased from $1,650.0 million to $2,555.0 million and the $350.0 million term loan portion of the agreement was removed. The increase option permitting us, subject to certain requirements, to arrange with existing lenders or new lenders to provide up to an aggregate of $300.0 million in additional commitments, was also adjusted to $249.4 million. In December 2015, we exercised our increase option in our credit agreement to obtain additional revolving commitments of $219.0 million, bringing our total revolving credit facility commitments to $2,774.0 million. Proceeds of loans made under the credit agreement may be used for working capital and general corporate purposes. At March 31, 2016, $1,052.0 million of borrowings were outstanding under the credit agreement. See Note 16 of the notes to consolidated financial statements for more information regarding our credit agreement.

Our total cash, cash equivalents, short-term investments and long-term investments held by our foreign subsidiaries was $2,559.3 million atMarch 31, 2016 and $2,322.4 million at March 31, 2015. 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, 2016 and March 31, 2015 was approximately $5.3 million and $19.8 million, respectively. We utilize a variety of tax planning and financing strategies (including borrowings under our credit agreement) 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.

In March 2015, we entered into ten-year fixed-to-floating interest rate swap agreements on a portion of our fixed-rate 1.625% senior subordinated convertible debentures. The interest rate swap agreements are designated as fair value hedges. We paid variable interest equal to the three-month LIBOR minus 53.6 basis points and we received a fixed interest rate of 1.625%. The gross notional amount of these contracts outstanding at March 31, 2015 was $431.3 million. In February 2016, the Company terminated its interest rate swap agreements. Upon termination, the contracts were in an asset position, resulting in cash receipts of approximately $25.7 million, which included $3.7 million of accrued interest. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statement of cash flows.

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, 2016, we had no foreign currency forward contracts outstanding.

On August 3, 2015, we acquired Micrel for $14.00 per share and paid an aggregate of approximately $430.0 million in cash and issued an aggregate of 8.6million shares of our common stock to Micrel shareholders. We financed the cash portion of the purchase price with borrowings under our existing credit agreement.

On April 4, 2016, we completed our acquisition Atmel. Under the terms of the merger agreement executed on January 19, 2016, Atmel stockholders received $8.15 per share in a combination of $7.00 per share in cash and $1.15 per share in shares of Microchip common stock. We financed the purchase price of our Atmel acquisition using approximately $2.04 billion of cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries, approximately $0.94 billion from additional borrowings under our existing line of credit agreement and approximately $489 million through the issuance of an aggregate of 10.1 million shares of our common stock. The acquisition price represents a total equity value of approximately $3.47 billion, and a total enterprise value of approximately $3.43 billion, after excluding Atmel's cash and investments net of debt of approximately $39.3 million. The acquisition was structured in a manner that enabled us to utilize a substantial portion of the cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries in a tax efficient manner. Although we believe our determinations with respect to the tax consequences of the acquisition are reasonable, we are regularly audited by the IRS and may be audited by other taxing authorities, and there can be no assurance as to the outcome of any such audit.

In May 2015, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2016, we had repurchased 8.6 million shares under this authorization for approximately $363.8 million. In January 2016, our Board of Directors authorized an increase in the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the current authorization. There is no expiration date associated with this repurchase program.

As of March 31, 2016, we held approximately 23.3 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 $2.81 billion. During fiscal 2016, we paid dividends in the amount of $1.433 per share for a total dividend payment of $291.1 million. During fiscal 2015, we paid dividends in the amount of $1.425 per share for a total dividend payment of $286.5 million. During fiscal 2014, we paid dividends in the amount of $1.417 per share for a total dividend payment of $281.2 million. On May 4, 2016, we declared a quarterly cash dividend of $0.3595 per share, which will be paid on June 6, 2016, to stockholders of record on May 23, 2016 and the total amount of such dividend is expected to be approximately $77 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 increase our borrowings 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, for share repurchases or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including our level of dividend payments, changes in tax laws and regulations regarding the repatriation of offshore cash, demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

Contractual Obligations

The following table summarizes our significant contractual obligations at March 31,2016, 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, 2016 (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	$ 41,162	$ 16,370	$ 20,027	$ 4,098	$ 667
Capital purchase obligations (1)	30,158	30,158	—	—	—
Other purchase obligations and commitments (2)	57,565	54,805	2,276	242	242
Borrowings under credit agreement outstanding as of March 31, 2016 - principal and interest (3)	1,130,357	20,356	40,712	1,069,289	—
1.625% senior convertible debentures - principal and interest on 1.625% coupon (4)	1,973,778	28,031	56,063	56,063	1,833,621
2.125% junior convertible debentures – principal and interest on 2.125% coupon (5)	840,249	12,219	24,438	24,438	779,154
Total contractual obligations (6)	$ 4,073,269	$ 161,939	$ 143,516	$ 1,154,130	$ 2,613,684

(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, 2016, 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 $52.4 million for delivery of wafers in fiscal 2017.

(3) For purposes of this table we have assumed that the principal of our credit agreement borrowings outstanding at March 31, 2016 will be paid on February 4, 2020, which is the maturity date of such borrowings.

(4) For purposes of this table we have assumed that the principal of our senior convertible debentures will be paid on February 15, 2025, which is the maturity date of such debentures.

(5) For purposes of this table we have assumed that the principal of our junior convertible debentures will be paid on December 15, 2037, which is the maturity date of such debentures.

(6) Total contractual obligations do not include contractual obligations recorded on our 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, 2016, 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

Refer to Note 1 to our consolidated financial statements regarding recently issued accounting pronouncements.

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 $2,564.6 million as of March 31, 2016 compared to $2,342.2 million as of March 31, 2015. 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. We sold a significant portion of our available-for-sale investments during the fourth quarter of fiscal 2016 to finance a portion of the purchase price of our Atmel acquisition which closed on April 4, 2016. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates as of March 31, 2016. 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,					
	2017	2018	2019	2020	2021	Thereafter
Available-for-sale securities	$ 41,078	$ 14,994	$ 413,558	$ —	$ —	$ —
Weighted-average yield rate	0.98%	0.75%	1.21%	—%	—%	—%

See Note 1 to our Consolidated Financial Statements for additional information on our investments.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we evaluated under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no