

October 30, 2014



Microchip Technology Announces Financial Results for Second Quarter Fiscal Year 2015

CHANDLER, Ariz.--(BUSINESS WIRE)-- Microchip Technology Incorporated (NASDAQ: MCHP)

- **Record net sales of \$546.2 million, up 3.3% sequentially on a GAAP basis, including \$16.9 million of revenue from the ISSC acquisition.**
- **Record net sales in each of our 8-bit, 16-bit and 32-bit microcontrollers.**
- **On a non-GAAP basis: gross margins of 59.1%; record operating income of \$177.3 million, net income of \$150.2 million; and EPS of 67 cents per diluted share.**
- **On a GAAP basis: gross margins of 56.3%; operating income of \$101.3 million; net income of \$93.6 million; and EPS of 42 cents per diluted share.**

Microchip Technology Incorporated (NASDAQ: MCHP), a leading provider of microcontroller, mixed signal, analog and Flash-IP solutions, today reported results for the three months ended September 30, 2014 as summarized in the following table:

| (in millions, except earnings per diluted share and percentages) | Three Months Ended September 30, 2014 | | | |
|---|---------------------------------------|----------------|-----------------------|----------------|
| | GAAP | % of Net Sales | Non-GAAP ¹ | % of Net Sales |
| Net Sales | \$546.2 | | \$546.2 | |
| Gross Margin | \$307.5 | 56.3% | \$322.8 | 59.1% |
| Operating Income | \$101.3 | 18.5% | \$177.3 | 32.5% |
| Other Expense (including Gains/Losses on Equity Method Investments) | \$10.6 | | \$8.2 | |
| Income Tax Provision (benefit) | \$(1.3) | | \$18.4 | |
| Net Income before non-controlling interest | \$92.0 | 16.8% | \$150.7 | 27.6% |
| Net Income (loss) from non-controlling interest | \$(1.6) | | \$0.5 | |
| Net Income Attributable to Microchip | \$93.6 | 17.1% | \$150.2 | 27.5% |
| Earnings per Diluted Share | 42 cents | | 67 cents | |

1 See the "Use of Non-GAAP Financial Measures" section of this release.

GAAP net sales for the second quarter of fiscal 2015 were \$546.2 million, up 3.3% sequentially from net sales of \$528.9 million in the immediately preceding quarter, and up 10.9% from GAAP net sales of \$492.7 million in the prior year's second fiscal quarter. GAAP net income for the second quarter of fiscal 2015 was \$93.6 million, or 42 cents per diluted share, up 4.2% from GAAP net income of \$89.9 million, or 40 cents per diluted share, in the immediately preceding quarter, and down 6.2% from GAAP net income of \$99.8 million, or 46 cents per diluted share, in the prior year's second fiscal quarter.

Non-GAAP net sales for the second quarter of fiscal 2015 were \$546.2 million, up 2.8% sequentially from non-GAAP net sales of \$531.3 million in the immediately preceding quarter, and up 10.9% from non-GAAP net sales of \$492.7 million in the prior year's second

fiscal quarter. Non-GAAP net income for the second quarter of fiscal 2015 was \$150.2 million, or 67 cents per diluted share, down 0.9% from non-GAAP net income of \$151.6 million, or 68 cents per diluted share, in the immediately preceding quarter, and up 10.2% from non-GAAP net income of \$136.4 million, or 63 cents per diluted share, in the prior year's second fiscal quarter. For the second quarters of fiscal 2015 and fiscal 2014, our non-GAAP results exclude the effect of share-based compensation, expenses related to our acquisition activities (including intangible asset amortization, inventory valuation costs, severance costs, and legal and other general and administrative expenses associated with acquisitions), non-cash interest expense on our convertible debentures, and non-recurring tax events. A reconciliation of our non-GAAP and GAAP results is included in this press release.

Microchip also announced today that its Board of Directors declared a quarterly cash dividend on its common stock of 35.65 cents per share. The quarterly dividend is payable on December 5, 2014 to stockholders of record on November 21, 2014.

"We were disappointed with the level of business activity in the September quarter. The September quarter is usually a back-end weighted quarter because of a traditional weak August due to holidays in various parts of the world," said Steve Sanghi, President and CEO. "The month of September is usually a strong month for our revenue after the summer holiday period. This time, the September sales did not materialize to our expectations leading us to pre-announce our net sales for the quarter on October 9, 2014."

Mr. Sanghi added, "Our net sales, excluding ISSC, were down 0.4% sequentially compared to net sales in the June 2014 quarter. Including the ISSC results for the portion of the time we owned the majority of their outstanding shares added another \$16.9 million to revenue pushing the September quarter revenue to an all time record."

"Including revenue from ISSC which will be reported as part of our microcontroller revenue, our overall microcontroller revenue grew 5.2% sequentially in the September quarter and was up 12.7% versus the year ago quarter, achieving a new revenue record," said Ganesh Moorthy, Chief Operating Officer. "Excluding ISSC revenue, microcontroller revenue grew 0.3% sequentially in the September quarter, was up 7.4% from the year ago quarter, and also achieved a new revenue record. Microcontroller revenue represented 66.2% of Microchip's overall revenue in the September quarter."

Mr. Moorthy added, "Excluding revenue from ISSC, our 16-bit microcontroller business was up 8.3% sequentially in the September quarter, also achieving a new record for revenue. 16-bit microcontroller revenue was up 23.3% versus the year ago quarter. This business continues to be an important engine of ongoing growth for us, as we continue to find and serve new customers and new applications with our expanding product portfolio. Excluding any revenue from ISSC, our 32-bit microcontroller business was up 7.6% sequentially in the September quarter, also achieving a new record for revenue. 32-bit microcontroller revenue was also up 38.6% versus the year ago quarter. We are continuing to rapidly expand our new product portfolio, win new designs and expand our presence in new applications to enable further growth in revenue and market share. Our 16-bit and 32-bit businesses are now at a size and growth rate where they are making a meaningful contribution to our overall growth."

Eric Bjornholt, Microchip's Chief Financial Officer, said, "Our net cash generation in the September quarter excluding our acquisition of ISSC, our dividend payment, and our reduction in borrowings was \$156.2 million. As of September 30, 2014, our consolidated

cash and total investment position was approximately \$2.124 billion. The dividend that we announced today marks the 43rd occasion that we have increased our dividend payment, and cumulative dividends paid are \$2.37 billion."

Mr. Sanghi concluded, "Having seen most of the market correction in the September quarter, we expect December quarter revenue to be only slightly below typical seasonal levels. We expect our non-GAAP revenue to be down 2% to 7% sequentially in the December quarter."

Microchip's Highlights for the Quarter Ended September 30, 2014:

- Version 1.0 of Microchip's award-winning MPLAB[®] Harmony Firmware Development Framework was released. It supports development with all 32-bit PIC32 MCUs, and demonstrates that Microchip stands alone in offering embedded designers the production-ready software they need to help ensure that their products ship on time and at top quality. Harmony integrates Microchip and third-party middleware, drivers, peripheral libraries and RTOSs, while accelerating and simplifying the code-development process.
- Microchip demonstrated its continuing 8-bit innovation leadership, with its latest family of low-cost PIC[®] microcontrollers. The PIC16LF1554/9 MCUs combine low power and dual ADCs with hardware support for advanced touch-sensing and general-purpose sensor applications.
- The Company also expanded its Human Interface Input Sensing Solutions portfolio with the introduction of its 3DTouchPad, which is both a PC-peripheral reference design and the world's first development platform for 2D multi-touch and 3D air gestures. It provides robust and innovative 3D gesture recognition utilizing Microchip's GestIC[®] technology, which offers a detection range of up to 10 cm for touchless air gestures, along with Microchip's highly responsive projected-capacitive 2D multi-touch solution supporting up to 10 touch points and multi-finger surface gestures.
- Microchip continued to enable the rapid growth of embedded wireless connectivity and the Internet of Things, with two new offerings. The PIC32 Bluetooth[®] Starter Kit eases the development of Bluetooth enabled products using Microchip's 32-bit microcontrollers, such as thermostats, gaming controllers, barcode scanners and diagnostic systems. Microchip also announced its latest 2.4 GHz 256-QAM RF high-power amplifier-the SST12CP21-which helps Wi-Fi[®] access-point, router and set-top-box system designers achieve the maximum data rate and longest range while minimizing current consumption.
- The Company's first Mobile App Developer Specialist, WillowTree Apps, is the latest company to join Microchip's world-class Design Partner Network. WillowTree is an award-winning and experienced iOS, Android[™] and Mobile-Web app developer that enables Microchip's customers to focus on the core of their Internet of Things designs and expedite development cycles, while ensuring an excellent mobile-interface experience for their users.
- Microchip continued to expand its comprehensive analog and interface portfolio with two new product families. The zero-drift MCP6N16 grew its instrumentation amplifier product line, and is ideal for applications that require a combination of high performance and precision, low power consumption, and low-voltage operation. The MCP8025/6 three-phase BLDC motor gate drivers grew Microchip's complete motor system solutions, and serve a broad range of automotive and industrial applications.

- In the automotive arena, Microchip introduced its MOST[®] ToGo Reference Designs in order to make it easy for designers to learn and implement the proven MOST technology in their infotainment systems. They enable designers to leverage Microchip's extensive experience and focus on their application software development, rather than studying the vast MOST specifications.
- Microchip recently won three prestigious corporate awards. Electronic Design Magazine ranked Microchip #3 in its 2013 list of the "Top 50 Employers in Electronic Design." Selling Power Magazine named Microchip to its annual "50 Best Companies to Sell For" for the second time - remaining the only semiconductor company on the list. Finally, Microchip won the Alfred P. Sloan Award for Excellence in Workplace Effectiveness and Flexibility for the eighth straight year.

Third Quarter Fiscal Year 2015 Outlook:

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially.

| | Microchip Consolidated Guidance | | |
|---|------------------------------------|----------------------------------|----------------------------------|
| | GAAP | Non-GAAP Adjustments | Non-GAAP ¹ |
| Net Sales | \$500.9 to \$528.2 million | \$7.1 million | \$508.0 to \$535.3 million |
| Gross Margin ² | 56.5% to 56.7% | \$11.6 to \$12.1 million | 58.0% to 58.2% |
| Operating Expenses ² | 39.55% to 40.05% | \$60.9 to \$64.4 million | 27.0% to 27.5% |
| Other Expense | \$9.8 million | \$2.5 million | \$7.3 million |
| Income Tax Expense | 11.4% to 11.8% | \$7.7 million | 10.6% to 11.0% |
| Net Income before noncontrolling interest | \$64.0 to \$71.6 million | \$67.4 to \$71.2 million | \$131.4 to \$142.8 million |
| Less Net Income (Loss) from noncontrolling interest | (\$1.5 million) | \$1.9 million | \$0.3 million |
| Net Income | \$65.5 to \$73.1 million | \$65.5 to \$69.3 million | \$131.1 to \$142.5 million |
| Diluted Common Shares Outstanding ³ | Approximately 222.7 million shares | Approximately 0.7 million shares | Approximately 222 million shares |
| Earnings per Diluted Share | 29 to 33 cents | 30 to 31 cents | 59 to 64 cents |

1 See the "Use of Non-GAAP Financial Measures" section of this release.

2 Earnings per share have been calculated based on the diluted shares outstanding of Microchip on a consolidated basis.

3 See Footnote 3 under the "Use of Non-GAAP Financial Measures" section of this release.

- Excluding any purchase accounting impacts from the Supertex and ISSC acquisitions, Microchip's inventory days at December 31, 2014 are expected to increase to between 2 days and 13 days. Our actual inventory level will depend on the inventory that our distributors decide to hold to support their customers, overall demand for our products and our production levels.
- Capital expenditures for the quarter ending December 31, 2014 are expected to be approximately \$40 million and capital expenditures for all of fiscal year 2015 are anticipated to be approximately \$150 million. We are continuing to take actions to selectively invest in the equipment needed to support the expected growth of our new products and technologies.
- We expect net cash generation during the December quarter of \$110 million to \$140 million prior to the dividend payment and our acquisition related activities.

¹ Use of non-GAAP Financial Measures: Our non-GAAP adjustments, where applicable, include the effect of share-based compensation, expenses related to our acquisition activities (including intangible asset amortization, inventory valuation costs, severance costs, and legal and other general and administrative expenses associated with acquisitions), non-cash interest expense on our convertible debentures, the related income tax implications of these items and non-recurring tax events. Our non-GAAP net sales reflect revenue from product in the acquired companies' distribution channel at the acquisition date that is not included in GAAP net sales.

We are required to estimate the cost of certain forms of share-based compensation, including employee stock options, restricted stock units and our employee stock purchase plan, and to record a commensurate expense in our income statement. Share-based compensation expense is a non-cash expense that varies in amount from period to period and is affected by the price of our stock at the date of grant. The price of our stock is affected by market forces that are difficult to predict and are not within the control of management. Our other non-GAAP adjustments are either non-cash expenses or non-recurring expenses related to such transactions. Accordingly, management excludes all of these items from its internal operating forecasts and models.

We are using non-GAAP net sales, non-GAAP gross profit, non-GAAP gross profit percentage, non-GAAP operating expenses in dollars and as a percentage of sales including non-GAAP research and development expenses and non-GAAP selling, general and administrative expenses, non-GAAP operating income, non-GAAP other expense, net, non-GAAP income tax (benefit)/tax rate, non-GAAP net income, and non-GAAP diluted earnings per share which exclude the items noted above, as applicable, to permit additional analysis of our performance.

Management believes these non-GAAP measures are useful to investors because they enhance the understanding of our historical financial performance and comparability between periods. Many of our investors have requested that we disclose this non-GAAP information because they believe it is useful in understanding our performance as it excludes non-cash and other charges that many investors feel may obscure our underlying operating results. Management uses these non-GAAP measures to manage and assess the profitability of our business. Specifically, we do not consider such items when developing and monitoring our budgets and spending. Our determination of the above non-GAAP measures might not be the same as similarly titled measures used by other companies, and it should not be construed as a substitute for amounts determined in accordance with GAAP. There are limitations associated with using non-GAAP measures, including that they exclude financial information that some may consider important in evaluating our performance. Management compensates for this by presenting information on both a GAAP and non-GAAP basis for investors and providing reconciliations of the GAAP and non-GAAP results.

² Diluted Common Shares Outstanding can vary for, among other things, the trading price of our common stock, the actual exercise of options or vesting of restricted stock units, the potential for incremental dilutive shares from our convertible debentures (additional information regarding our share count is available in the investor relations section of our website under the heading "Supplemental Financial Information"), and the repurchase or the issuance of stock. The diluted common shares outstanding presented in the guidance table above assumes an average Microchip stock price in the December 2014 quarter of \$43 per share (however, we make no prediction as to what our actual share price will be for such period or any other period and we cannot estimate what our stock option exercise activity will be during the quarter).

³ Generally, gross margin fluctuates over time, driven primarily by the mix of microcontrollers, mixed-signal products, analog products and memory products sold and licensing revenue; variances in manufacturing yields; fixed cost absorption; wafer fab loading levels; costs of wafers from foundries; inventory reserves; pricing pressures in our non-proprietary product lines; and competitive and economic conditions. Operating expenses fluctuate over time, primarily due to net sales and profit levels.

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share amounts)
(Unaudited)

| | Three months ended September 30, | | Six months ended September 30, | |
|---|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | \$546,243 | \$492,669 | \$1,075,119 | \$955,461 |
| Cost of sales | 238,789 | 203,806 | 461,146 | 400,024 |
| Gross profit | 307,454 | 288,863 | 613,973 | 555,437 |
| Operating expenses: | | | | |
| Research and development | 88,814 | 78,254 | 173,184 | 151,339 |
| Selling, general and administrative | 71,114 | 69,368 | 140,369 | 135,078 |
| Amortization of acquired intangible assets | 45,433 | 23,744 | 82,077 | 51,421 |
| Special charges (income) | 775 | (11) | 1,079 | 1,690 |
| | 206,136 | 171,355 | 396,709 | 339,528 |
| Operating income | 101,318 | 117,508 | 217,264 | 215,909 |
| Losses on equity method investments | (35) | (101) | (67) | (361) |
| Other expense, net | (10,579) | (6,201) | (19,502) | (14,006) |
| Income before income taxes | 90,704 | 111,206 | 197,695 | 201,542 |
| Income tax (benefit) provision | (1,334) | 11,400 | 15,748 | 23,157 |
| Net income | 92,038 | 99,806 | 181,947 | 178,385 |
| Less: Net loss attributable to noncontrolling interests | 1,603 | — | 1,603 | — |
| Net income attributable to Microchip Technology | <u>\$ 93,641</u> | <u>\$ 99,806</u> | <u>\$ 183,550</u> | <u>\$178,385</u> |
| Basic net income per common share attributable to Microchip Technology stockholders | <u>\$ 0.47</u> | <u>\$ 0.50</u> | <u>\$ 0.92</u> | <u>\$ 0.90</u> |
| Diluted net income per common share attributable to Microchip Technology stockholders | <u>\$ 0.42</u> | <u>\$ 0.46</u> | <u>\$ 0.82</u> | <u>\$ 0.83</u> |
| Basic common shares outstanding | <u>200,629</u> | <u>197,825</u> | <u>200,408</u> | <u>197,388</u> |
| Diluted common shares outstanding | <u>225,284</u> | <u>216,475</u> | <u>224,906</u> | <u>214,371</u> |

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

ASSETS

| | September 30, 2014 | March 31, 2014 |
|----------------------------------|-----------------------|--------------------|
| | (Unaudited) | |
| Cash and short-term investments | \$ 1,283,109 | \$1,344,785 |
| Accounts receivable, net | 287,473 | 242,405 |
| Inventories | 275,746 | 262,725 |
| Deferred tax assets | 62,411 | 67,490 |
| Other current assets | 70,226 | 51,994 |
| Total current assets | <u>1,978,965</u> | <u>1,969,399</u> |
| Property, plant & equipment, net | 585,102 | 531,967 |
| Long-term investments | 841,277 | 798,712 |
| Other assets | 1,205,283 | 767,552 |
| Total assets | <u>\$ 4,610,627</u> | <u>\$4,067,630</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|---------------------|--------------------|
| Accounts payable and other current liabilities | \$ 208,399 | \$ 170,781 |
| Short-term borrowings | 17,500 | 17,500 |
| Deferred income on shipments to distributors | 159,585 | 147,798 |
| Total current liabilities | <u>385,484</u> | <u>336,079</u> |
| Long-term line of credit | 624,375 | 300,000 |
| Long-term borrowings, net | 322,767 | 331,385 |
| Convertible debentures | 376,729 | 371,873 |
| Long-term income tax payable | 139,343 | 179,966 |
| Long-term deferred tax liability | 469,370 | 375,316 |
| Other long-term liabilities | 40,351 | 37,550 |
| Microchip Technology stockholders' equity | 2,203,421 | 2,135,461 |
| Noncontrolling interests | 48,787 | — |
| Total equity | <u>2,252,208</u> | <u>2,135,461</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,610,627</u> | <u>\$4,067,630</u> |

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
RECONCILIATION OF GAAP TO NON-GAAP MEASURES

(in thousands except per share amounts and percentages)
(Unaudited)

RECONCILIATION OF GAAP NET SALES TO NON-GAAP NET SALES

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net sales, as reported | \$546,243 | \$492,669 | \$1,075,119 | \$955,461 |
| Distributor revenue recognition adjustment | — | — | 2,469 | — |
| Non-GAAP net sales | <u>\$546,243</u> | <u>\$492,669</u> | <u>\$1,077,588</u> | <u>\$955,461</u> |

RECONCILIATION OF GAAP GROSS PROFIT TO NON-GAAP GROSS PROFIT

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Gross profit, as reported | \$307,454 | \$288,863 | \$613,973 | \$555,437 |
| Distributor revenue recognition adjustment | — | — | 1,362 | — |
| Share-based compensation expense | 2,640 | 1,864 | 4,695 | 3,833 |
| Acquisition-related acquired inventory valuation costs | 12,690 | — | 20,501 | — |
| Non-GAAP gross profit | <u>\$322,784</u> | <u>\$290,727</u> | <u>\$640,531</u> | <u>\$559,270</u> |
| Non-GAAP gross profit percentage | 59.1% | 59.0% | 59.4% | 58.5% |

RECONCILIATION OF GAAP RESEARCH AND DEVELOPMENT EXPENSES TO NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES

| | Three months ended September 30, | | Six months ended September 30, | |
|---|-------------------------------------|------------------|-----------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Research and development expenses, as reported | \$ 88,814 | \$ 78,254 | \$ 173,184 | \$ 151,339 |
| Share-based compensation expense | (7,261) | (6,931) | (13,570) | (12,621) |
| Non-GAAP research and development expenses | <u>\$ 81,553</u> | <u>\$ 71,323</u> | <u>\$ 159,614</u> | <u>\$ 138,718</u> |
| Non-GAAP research and development expenses as a percentage of net sales | 14.9% | 14.5% | 14.8% | 14.5% |

RECONCILIATION OF GAAP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES TO NON-GAAP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Selling, general and administrative expenses, as reported | \$ 71,114 | \$ 69,368 | \$ 140,369 | \$ 135,078 |
| Share-based compensation expense | (5,372) | (6,205) | (10,329) | (11,202) |
| Acquisition-related costs | (1,801) | (383) | (2,737) | (1,271) |
| Non-GAAP selling, general and administrative expenses | <u>\$ 63,941</u> | <u>\$ 62,780</u> | <u>\$ 127,303</u> | <u>\$ 122,605</u> |
| Non-GAAP selling, general and administrative expenses as a percentage of net sales | 11.7% | 12.7% | 11.8% | 12.8% |

RECONCILIATION OF GAAP OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Operating expenses, as reported | \$206,136 | \$171,355 | \$396,709 | \$339,528 |
| Share-based compensation expense | (12,633) | (13,136) | (23,899) | (23,823) |
| Acquisition-related costs | (1,801) | (383) | (2,737) | (1,271) |
| Amortization of acquired intangible assets | (45,433) | (23,744) | (82,077) | (51,421) |
| Special charges | (775) | 11 | (1,079) | (1,690) |
| Non-GAAP operating expenses | <u>\$145,494</u> | <u>\$134,103</u> | <u>\$286,917</u> | <u>\$261,323</u> |
| Non-GAAP operating expenses as a percentage of net sales | 26.6% | 27.2% | 26.6% | 27.4% |

RECONCILIATION OF GAAP OPERATING INCOME TO NON-GAAP OPERATING INCOME

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Operating income, as reported | \$101,318 | \$117,508 | \$217,264 | \$215,909 |
| Distributor revenue recognition adjustment | — | — | 1,362 | — |
| Share-based compensation expense | 15,273 | 15,000 | 28,594 | 27,656 |
| Acquisition-related acquired inventory valuation and other costs | 14,491 | 383 | 23,238 | 1,271 |
| Amortization of acquired intangible assets | 45,433 | 23,744 | 82,077 | 51,421 |
| Special charges (income) | 775 | (11) | 1,079 | 1,690 |
| Non-GAAP operating income | <u>\$177,290</u> | <u>\$156,624</u> | <u>\$353,614</u> | <u>\$297,947</u> |
| Non-GAAP operating income as a percentage of net sales | 32.5% | 31.8% | 32.8% | 31.2% |

RECONCILIATION OF GAAP OTHER EXPENSE, NET TO NON-GAAP OTHER EXPENSE, NET

| | Three months ended September 30, | | Six months ended September 30, | |
|---|-------------------------------------|------------------|-----------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Other expense, net, as reported | \$(10,579) | \$(6,201) | \$(19,502) | \$(14,006) |
| Convertible debt non-cash interest expense | 2,445 | 2,235 | 4,810 | 4,396 |
| Non-GAAP other expense, net | <u>\$ (8,134)</u> | <u>\$(3,966)</u> | <u>\$(14,692)</u> | <u>\$ (9,610)</u> |
| Non-GAAP other expense, net, as a percentage of net sales | -1.5% | -0.8% | -1.4% | -1.0% |

RECONCILIATION OF GAAP INCOME TAX (BENEFIT) PROVISION TO NON-GAAP INCOME TAX PROVISION

| | Three months ended September 30, | | Six months ended September 30, | |
|---|-------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Income tax (benefit) provision, as reported | \$ (1,334) | \$11,400 | \$15,748 | \$23,157 |
| Income tax rate, as reported | -1.5% | 10.3% | 8.0% | 11.5% |
| Distributor revenue recognition adjustment | — | — | 375 | — |
| Share-based compensation expense | 1,833 | 1,589 | 3,253 | 2,991 |
| Acquisition-related acquired inventory valuation costs, intangible asset amortization and other costs | 6,201 | 357 | 8,897 | 780 |
| Special charges (income) | 271 | (4) | 384 | 633 |
| Convertible debt non-cash interest expense | 908 | 837 | 1,787 | 1,646 |
| Non-recurring tax events | 10,517 | 1,995 | 6,052 | 1,995 |
| Non-GAAP income tax provision | <u>\$18,396</u> | <u>\$16,174</u> | <u>\$36,496</u> | <u>\$31,202</u> |
| Non-GAAP income tax rate | 10.9% | 10.6% | 10.8% | 10.8% |

RECONCILIATION OF GAAP NET INCOME ATTRIBUTABLE TO MICROCHIP TECHNOLOGY AND GAAP DILUTED NET INCOME PER COMMON SHARE ATTRIBUTABLE TO MICROCHIP TECHNOLOGY STOCKHOLDERS TO NON-GAAP NET INCOME ATTRIBUTABLE TO MICROCHIP TECHNOLOGY AND NON-GAAP DILUTED NET INCOME PER COMMON SHARE ATTRIBUTABLE TO MICROCHIP TECHNOLOGY STOCKHOLDERS

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income attributable to Microchip Technology, as reported | \$ 93,641 | \$ 99,806 | \$ 183,550 | \$ 178,385 |
| Noncontrolling interests | (2,090) | — | (2,090) | — |
| Distributor revenue recognition adjustment, net of tax effect | — | — | 987 | — |
| Share-based compensation expense, net of tax effect | 13,440 | 13,411 | 25,341 | 24,665 |
| Acquisition-related acquired inventory valuation costs, intangible asset amortization and other costs, net of tax effect | 53,723 | 23,770 | 96,418 | 51,912 |
| Special charges (income), net of tax effect | 504 | (7) | 695 | 1,057 |
| Convertible debt non-cash interest expense, net of tax effect | 1,537 | 1,398 | 3,023 | 2,750 |
| Non-recurring tax events | (10,517) | (1,995) | (6,052) | (1,995) |
| Non-GAAP net income attributable to Microchip Technology | <u>\$ 150,238</u> | <u>\$ 136,383</u> | <u>\$ 301,872</u> | <u>\$ 256,774</u> |
| Non-GAAP net income attributable to Microchip Technology as a percentage of net sales | 27.5% | 27.7% | 28.0% | 26.9% |
| | | | | |
| Diluted net income per common share attributable to Microchip Technology stockholders, as reported | \$ 0.42 | \$ 0.46 | \$ 0.82 | \$ 0.83 |
| Non-GAAP diluted net income per common share attributable to Microchip Technology stockholders | <u>\$ 0.67</u> | <u>\$ 0.63</u> | <u>\$ 1.35</u> | <u>\$ 1.20</u> |
| Diluted common shares outstanding, as reported | <u>225,284</u> | <u>216,475</u> | <u>224,906</u> | <u>214,371</u> |
| Diluted common shares outstanding Non-GAAP | <u>224,682</u> | <u>215,764</u> | <u>224,286</u> | <u>213,691</u> |

Microchip will host a conference call today, October 30, 2014 at 5:00 p.m. (Eastern Time) to discuss this release. This call will be simulcast over the Internet at www.microchip.com. The webcast will be available for replay until November 6, 2014.

A telephonic replay of the conference call will be available at approximately 8:00 p.m. (Eastern Time) October 30, 2014 and will remain available until 8:00 p.m. (Eastern Time) on November 6, 2014. Interested parties may listen to the replay by dialing 719-457-0820 and entering access code 2015520.

Cautionary Statement:

The statements in this release relating to the September quarter usually being back-end weighted, traditional weak August, the month of September usually being a strong month for revenue, 16-bit business continuing to be an important engine of growth, continuing to rapidly expand our 32-bit product portfolio, enabling further growth in revenue and market share, 16-bit and 32-bit businesses making a meaningful contribution to our overall growth, having seen most of the market correction in the September quarter and expecting the December quarter revenue to be only slightly below seasonal levels, expecting GAAP revenue to be down 2% to 7% sequentially in the December quarter, our third quarter fiscal 2015 guidance (GAAP and Non-GAAP as applicable) including net sales, gross margin, operating expenses, other expense, income tax expense, net income, net income before noncontrolling interest, net income (loss) from noncontrolling interest, diluted common shares outstanding, earnings per diluted share, inventory days, capital expenditures for the December 2014 quarter and for fiscal 2015, selectively investing to support the expected growth of our new products and technologies, net cash generation and assumed average stock price in the December 2014 quarter are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that could cause our actual results to differ materially, including, but not limited to: any continued economic uncertainty due to U.S.

monetary policy, political or other issues, any unexpected fluctuations or weakness in the U.S. and global economies, changes in demand or market acceptance of our products and the products of our customers; the mix of inventory we hold and our ability to satisfy short-term orders from our inventory; changes in utilization of our manufacturing capacity and our ability to effectively manage our production levels; competitive developments including pricing pressures; the level of orders that are received and can be shipped in a quarter; the level of sell-through of our products through distribution; changes or fluctuations in customer order patterns and seasonality; foreign currency effects on our business; our ability to continue to realize the expected benefits of our acquisitions; the impact of any other significant acquisitions that we may make; our ability to obtain a sufficient supply of wafers from third party wafer foundries and the cost of such wafers, the costs and outcome of any current or future tax audit or any litigation involving intellectual property, customers or other issues; our actual average stock price in the December 2014 quarter and the impact such price will have on our share count; disruptions in our business or the businesses of our customers or suppliers due to natural disasters (including any floods in Thailand), terrorist activity, armed conflict, war, worldwide oil prices and supply, ebola or other public health concerns or disruptions in the transportation system; and general economic, industry or political conditions in the United States or internationally.

For a detailed discussion of these and other risk factors, please refer to Microchip's filings on Forms 10-K and 10-Q. You can obtain copies of Forms 10-K and 10-Q and other relevant documents for free at Microchip's website (www.microchip.com) or the SEC's website (www.sec.gov) or from commercial document retrieval services.

Stockholders of Microchip are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date such statements are made. Microchip does not undertake any obligation to publicly update any forward-looking statements to reflect events, circumstances or new information after this October 30, 2014 press release, or to reflect the occurrence of unanticipated events.

About Microchip:

Microchip Technology Incorporated is a leading provider of microcontroller, mixed-signal, analog and Flash-IP solutions, providing low-risk product development, lower total system cost and faster time to market for thousands of diverse customer applications worldwide. Headquartered in Chandler, Arizona, Microchip offers outstanding technical support along with dependable delivery and quality. For more information, visit the Microchip website at www.microchip.com.

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Microchip Technology Incorporated
INVESTOR RELATIONS CONTACT:
J. Eric Bjornholt, 480-792-7804
CFO

Source: Microchip Technology Incorporated