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

Delaware 86-0629024
(State or Other Jurisdiction of Incorporation or Organization)  (IRS Employer Identification No.)

2355 W. Chandler Blvd., Chandler, AZ 85224-6199
(480) 792-7200
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant’s Principal Executive Offices)

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes X No __________

Number of shares of common stock, $.001 Par Value, outstanding as of November 8, 2002: 203,084,208 shares.
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EXHIBITS
MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  

(in thousands except share amounts)  

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>September 30, 2002 (Unaudited)</th>
<th>March 31, 2002 (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$141,328</td>
<td>$280,647</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>89,919</td>
<td>80,747</td>
</tr>
<tr>
<td>Inventories</td>
<td>92,142</td>
<td>88,615</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>6,748</td>
<td>6,154</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>112,102</td>
<td>83,980</td>
</tr>
<tr>
<td>Other current assets</td>
<td>73,481</td>
<td>9,033</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>515,720</td>
<td>549,176</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>784,276</td>
<td>715,960</td>
</tr>
<tr>
<td>Goodwill</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>5,333</td>
<td>---</td>
</tr>
<tr>
<td>Other assets</td>
<td>9,908</td>
<td>10,464</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,345,983</td>
<td>$1,275,600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND STOCKHOLDERS’ EQUITY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$33,962</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>103,409</td>
</tr>
<tr>
<td>Deferred income on shipments to distributors</td>
<td>46,148</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>183,519</td>
</tr>
<tr>
<td>Pension accrual</td>
<td>1,066</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>30,864</td>
</tr>
<tr>
<td><strong>Stockholders’ equity:</strong></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, $.001 par value; authorized 5,000,000 shares; no shares issued or outstanding.</td>
<td>---</td>
</tr>
<tr>
<td>Common stock, $.001 par value; authorized 300,000,000 shares; issued 202,746,423 and outstanding 202,686,423 shares at September 30, 2002; issued 200,802,633 and outstanding 200,629,908 shares at March 31, 2002.</td>
<td>203</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>480,128</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>651,243</td>
</tr>
<tr>
<td>Less shares of common stock held in treasury at cost; 60,000 shares at September 30, 2002 and 172,725 shares at March 31, 2002.</td>
<td>(1,040)</td>
</tr>
<tr>
<td><strong>Net stockholders’ equity</strong></td>
<td>1,130,534</td>
</tr>
<tr>
<td><strong>Total liabilities and stockholders’ equity</strong></td>
<td>$1,345,983</td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial statements
### MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended September 30,</th>
<th></th>
<th>Six Months Ended September 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$169,748</td>
<td>$141,662</td>
<td>$329,493</td>
<td>$280,556</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>78,239</td>
<td>70,793</td>
<td>154,087</td>
<td>140,281</td>
</tr>
<tr>
<td>Gross profit</td>
<td>91,509</td>
<td>70,869</td>
<td>175,406</td>
<td>140,275</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>22,337</td>
<td>20,168</td>
<td>43,897</td>
<td>39,702</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>23,127</td>
<td>20,165</td>
<td>45,068</td>
<td>41,608</td>
</tr>
<tr>
<td>Special charges</td>
<td>41,500</td>
<td>---</td>
<td>50,800</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>86,964</td>
<td>40,333</td>
<td>139,765</td>
<td>81,310</td>
</tr>
<tr>
<td>Operating income</td>
<td>4,545</td>
<td>30,536</td>
<td>35,641</td>
<td>58,965</td>
</tr>
<tr>
<td>Other income (expense):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>1,072</td>
<td>1,284</td>
<td>2,474</td>
<td>2,546</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(122)</td>
<td>(125)</td>
<td>(258)</td>
<td>(332)</td>
</tr>
<tr>
<td>Other, net</td>
<td>203</td>
<td>20</td>
<td>187</td>
<td>363</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>5,698</td>
<td>31,715</td>
<td>38,044</td>
<td>61,542</td>
</tr>
<tr>
<td>Income tax provision (benefit)</td>
<td>(4,565)</td>
<td>8,567</td>
<td>6,055</td>
<td>16,621</td>
</tr>
<tr>
<td>Net income</td>
<td>$10,263</td>
<td>$23,148</td>
<td>$31,989</td>
<td>$44,921</td>
</tr>
<tr>
<td>Basic net income per share</td>
<td>$0.05</td>
<td>$0.12</td>
<td>$0.16</td>
<td>$0.23</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>$0.05</td>
<td>$0.11</td>
<td>$0.15</td>
<td>$0.22</td>
</tr>
<tr>
<td>Weighted average common shares outstanding</td>
<td>202,047</td>
<td>199,209</td>
<td>201,654</td>
<td>198,180</td>
</tr>
<tr>
<td>Weighted average common and potential common shares outstanding</td>
<td>209,642</td>
<td>208,587</td>
<td>210,433</td>
<td>207,507</td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial statements
**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)  

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended September 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2001</td>
</tr>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$31,989</td>
<td>$44,921</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for doubtful accounts</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Provision for inventory valuation</td>
<td>3,496</td>
<td>3,968</td>
</tr>
<tr>
<td>Provision for pension accrual</td>
<td>22</td>
<td>77</td>
</tr>
<tr>
<td>Gain on sale of fixed assets</td>
<td>---</td>
<td>(242)</td>
</tr>
<tr>
<td>Fab 3 impairment charge</td>
<td>41,500</td>
<td>---</td>
</tr>
<tr>
<td>Loss on write-down of fixed assets</td>
<td>2,146</td>
<td>---</td>
</tr>
<tr>
<td>In-process research and development charge</td>
<td>9,300</td>
<td>---</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>55,070</td>
<td>54,615</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(21,301)</td>
<td>11,550</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options</td>
<td>12,719</td>
<td>9,390</td>
</tr>
<tr>
<td>(Increase) decrease in accounts receivable</td>
<td>(8,082)</td>
<td>6,538</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(6,524)</td>
<td>(2,424)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued</td>
<td>7,901</td>
<td>(38,548)</td>
</tr>
<tr>
<td>liabilities</td>
<td>253</td>
<td>(35,715)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>128,519</td>
<td>54,158</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:  

| PowerSmart acquisition, net of cash acquired         | (50,674)                      | ---   |
| Proceeds from sale of assets                         | ---                           | 1,029 |
| Purchase of Fab 4                                     | (184,512)                     | ---   |
| Capital expenditures                                 | (42,117)                      | (30,895)|
| Net cash used in investing activities                | (277,303)                     | (29,866)|

Cash flows from financing activities:  

| Purchase of treasury stock                           | (7,450)                       | ---   |
| Proceeds from sale of stock                          | 16,915                        | 16,942|
| Net cash provided by financing activities            | 9,465                         | 16,942|

Net (decrease) increase in cash and cash equivalents  

Net cash (decrease) increase in cash and cash equivalents | $ (139,319)                     | 41,234|

Cash and cash equivalents at beginning of period 

| Cash and cash equivalents at beginning of period     | 280,647                        | 129,909|

Cash and cash equivalents at end of period  

| Cash and cash equivalents at end of period           | $141,328                       | $171,143|

See accompanying notes to condensed consolidated financial statements
(1) **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its wholly owned subsidiaries (the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments of a normal recurring nature which are necessary for a fair presentation have been included. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such Securities and Exchange Commission rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2002. The results of operations for the six months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending March 31, 2003 or for any other period.

Certain reclassifications have been made to conform the prior year amounts to the current period presentation.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (“SFAS 141”), *Business Combinations*, and No. 142 (“SFAS 142”), *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. In accordance with SFAS Nos. 141 and 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. Goodwill will be subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. The Company adopted the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003 and such rules were applied to the acquisition of PowerSmart, Inc. The annual impairment tests will be performed in the fourth quarter of each fiscal year. As of September 30, 2002, no impairment of goodwill has been recognized. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

(2) **Acquisition of Gresham, Oregon Wafer Fabrication Facility**

On August 23, 2002, the Company completed its acquisition of a semiconductor manufacturing complex in Gresham, Oregon. The Company acquired the facility for $183.5 million in cash plus direct acquisition costs of approximately $1.0 million. The facility is situated on an approximately 140-acre campus east of Portland and comprises approximately 826,500 square feet, including approximately 200,000 square feet of clean room space. The facility came equipped with approximately 350 process tools and 170 support tools. The Company plans to initially produce 8-inch wafers on its 0.5 micron and 0.35 micron process technologies at the Gresham facility. The facility will also house offices, meeting rooms and support functions. The facility is expected to be placed into production in the second quarter of fiscal 2004.
(3) **Special Charges**

**Fab 3 Impairment Charge**

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), *Accounting for the Impairment or Disposal of Long-Lived Assets*, which is applicable to financial statements for fiscal years beginning after December 15, 2001. This standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of book value or fair value less cost to sell. SFAS 144 was effective for the Company as of the beginning of fiscal 2003. In accordance with SFAS 144, the Company recorded a $41.5 million asset impairment charge during the quarter ended September 30, 2002 as described below.

The Company acquired a semiconductor manufacturing facility in Puyallup, Washington, referred to as Fab 3, in July 2000. The original purchase consisted of semiconductor manufacturing facilities and real property. It was the Company’s intention to bring Fab 3 to productive readiness and commence volume production of 8-inch wafers using its 0.7 and 0.5 micron process technologies by August 2001. The Company delayed its intended production start up at Fab 3 due to deteriorating business conditions in the semiconductor industry. Fab 3 has never been brought to productive readiness.

As described above in Note 2, the Company acquired a semiconductor manufacturing facility in Gresham, Oregon, referred to as Fab 4. After the acquisition of Fab 4 was completed, the Company undertook a detailed analysis of the potential production capacity at Fab 4. The results of the Fab 4 production capacity analysis led the Company to determine that Fab 3’s capacity would not be needed in the foreseeable future and during the second quarter the Company committed to a plan to sell Fab 3. Accordingly, Fab 3 has been classified as an asset held-for-sale at September 30, 2002.

The Company retained an independent third party firm, other than its independent auditors, to complete a fair value appraisal of Fab 3. The independent third party used the market approach and considered comparable sales in determining the fair value of Fab 3. The comparable sales included eight properties including the subject property from the Company’s prior purchase in 2000. Based on the results of this appraisal, the Company recorded an asset impairment charge on Fab 3 of $36.9 million, including costs to sell. The remaining value of $60.2 million is classified as an asset held-for-sale and is included as a component of other current assets at September 30, 2002.

During the quarter ended September 30, 2002, the Company also recorded an asset impairment charge of $4.6 million to write-down certain excess manufacturing equipment located at Fab 3 to its net realizable value of $212,000. This manufacturing equipment became “excess” as a result of duplicate equipment acquired in the purchase of Fab 4. The net realizable value for the excess manufacturing equipment was determined based on management estimates. Substantially all of the other manufacturing equipment located at Fab 3 will be transferred to and used in the Company’s other wafer fabrication facilities located in Chandler, Arizona (Fab 1), Tempe, Arizona (Fab 2) and Gresham, Oregon (Fab 4).

If actual market conditions are less favorable than those estimated in the appraisal, or if future market conditions deteriorate, the net proceeds from the assets held-for-sale could be less than the amount estimated in the financial statements and additional losses could result prior to or at the time of the sale of Fab 3.

**PowerSmart In-Process Research and Development Charge**

On June 5, 2002, the Company completed the acquisition of PowerSmart, Inc. in which Microchip acquired all of PowerSmart’s outstanding capital stock and assumed certain stock options for consideration of $54.0 million in cash. The purchase price was allocated among PowerSmart’s tangible and intangible assets, in-
process research and development and goodwill based on an independent valuation analysis performed by a firm other than the Company’s independent auditors.

The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141, Business Combinations, and accordingly, the results of PowerSmart’s operations are included in the Company’s consolidated results from the date of the acquisition. The acquisition was not considered significant under the rules and regulations of the Securities and Exchange Commission (Rule 3-05 of Regulation S-X).

The amount paid in excess of the fair value of the net tangible assets has been allocated to separately identifiable intangible assets based upon an independent valuation analysis. An allocation of $9.3 million of the purchase price was assigned to in-process research and development and was written off at the date of the acquisition in accordance with FASB Interpretation No. 4, “Applicability of FASB Statement No. 2, Business Combinations Accounted for by the Purchase Method.”

An allocation of approximately $30.7 million of the purchase price was made to goodwill related to the acquisition in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill related to this acquisition will not be amortized but will be subject to periodic impairment tests. None of the goodwill is expected to be deductible for tax purposes.

An allocation of $5.6 million of the purchase price was made to core technology and other identifiable intangible assets and will be amortized over their estimated useful lives of seven years.

(4) **Accounts Receivable**

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

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2002</th>
<th>March 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>$ 91,585</td>
<td>$ 84,336</td>
</tr>
<tr>
<td>Other</td>
<td>2,283</td>
<td>348</td>
</tr>
<tr>
<td></td>
<td>93,868</td>
<td>84,684</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>3,949</td>
<td>3,937</td>
</tr>
<tr>
<td></td>
<td>$ 89,919</td>
<td>$ 80,747</td>
</tr>
</tbody>
</table>

(5) **Inventories**

The components of inventories consist of the following (amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2002</th>
<th>March 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$ 11,086</td>
<td>$ 7,187</td>
</tr>
<tr>
<td>Work in process</td>
<td>53,909</td>
<td>61,724</td>
</tr>
<tr>
<td>Finished goods</td>
<td>27,147</td>
<td>19,704</td>
</tr>
<tr>
<td></td>
<td>$ 92,142</td>
<td>$ 88,615</td>
</tr>
</tbody>
</table>

Provisions for inventory valuation 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.
(6) Property, Plant and Equipment

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

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2002</th>
<th>March 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$11,538</td>
<td>$23,685</td>
</tr>
<tr>
<td>Building and building improvements</td>
<td>188,902</td>
<td>191,186</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>744,362</td>
<td>722,049</td>
</tr>
<tr>
<td>Projects in process</td>
<td>318,732</td>
<td>211,098</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation and amortization</strong></td>
<td><strong>479,246</strong></td>
<td><strong>432,058</strong></td>
</tr>
<tr>
<td><strong>$784,288</strong></td>
<td><strong>$715,960</strong></td>
<td></td>
</tr>
</tbody>
</table>

Depreciation and amortization expense attributed to property and equipment was $55.1 million and $54.6 million for the six months ended September 30, 2002 and September 30, 2001, respectively.

(7) Lines of Credit

The Company has an unsecured revolving credit facility with a syndicate of banks totaling $100,000,000, bearing interest at LIBOR plus 0.625%. The Company can elect to increase the facility to $150,000,000, subject to certain conditions set forth in the credit agreement. This facility has a termination date of May 31, 2003. The Company had no borrowings against this line of credit as of September 30, 2002. The credit facility requires the Company to achieve certain financial ratios and operating results to maintain the credit facility. The Company’s ability to fully utilize this credit facility is dependent on it being in compliance with such covenants and ratios. The Company was in compliance with these covenants as of September 30, 2002.

The Company has an additional unsecured short-term line of credit with various financial institutions in Asia for up to $15,000,000 (U.S. Dollar equivalent). These borrowings are predominantly denominated in U.S. Dollars, bearing interest at the Singapore Interbank Offering Rate (SIBOR) of 1.748% at September 30, 2002 plus 0.5% (average) and expiring on various dates through March 2003. There were no borrowings against this line of credit as of September 30, 2002, and an allocation of $851,000 of the available line was made, relating to import guarantees associated with the Company’s business in Thailand. There are no covenants relative to the foreign line of credit.
(8) **Net Income Per Share**

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended September 30,</th>
<th>Six Months Ended September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$10,263</td>
<td>$23,148</td>
</tr>
<tr>
<td>Weighted average common shares outstanding</td>
<td>202,047</td>
<td>199,209</td>
</tr>
<tr>
<td>Dilutive effect of stock options</td>
<td>7,595</td>
<td>9,378</td>
</tr>
<tr>
<td>Weighted average common and potential common shares outstanding</td>
<td>209,642</td>
<td>208,587</td>
</tr>
<tr>
<td>Basic net income per share</td>
<td>$0.05</td>
<td>$0.12</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>$0.05</td>
<td>$0.11</td>
</tr>
</tbody>
</table>

(9) **Stock Repurchase**

On August 7, 2002, the Company’s Board of Directors authorized the Company to repurchase up to 2,500,000 shares of its common stock in the open market or in privately negotiated transactions. During the quarter ended September 30, 2002, the Company purchased 392,700 shares of its common stock for $7,449,781. 332,700 of the purchased shares were reissued during the quarter ended September 30, 2002 to fund stock option exercises and purchases under the Company’s employee stock purchase plan. At September 30, 2002, there were 60,000 purchased shares held as treasury shares. The timing and amount of any future repurchases will depend upon market conditions and corporate considerations.

(10) **Subsequent Event**

On October 28, 2002, the Company announced that its Board of Directors had approved and instituted a quarterly cash dividend on its common stock. The initial quarterly dividend is $0.02 per share and is payable to shareholders of record on November 8, 2002. The initial quarterly dividend payment is expected to be approximately $4.1 million and will be paid in the third quarter of fiscal 2003.
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended September 30, (Unaudited)</th>
<th>Six Months Ended September 30, (Unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>46.1%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>53.9%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Research and development</td>
<td>13.2%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Selling, general and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>administrative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special charges</td>
<td>24.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Operating income</td>
<td>2.7%</td>
<td>21.6%</td>
</tr>
</tbody>
</table>

Net Sales

We operate in one industry segment and engage primarily in the design, development, manufacture and marketing of semiconductor products. We sell our products to distributors and original equipment manufacturers, referred to as OEMs, in a broad range of market segments, perform on-going credit evaluations of our customers and generally require no collateral.

Our net sales for the quarter ended September 30, 2002 were $169.7 million, an increase of 6.3% from the previous quarter’s sales of $159.7 million, and an increase of 19.8% from net sales of $141.7 million in the quarter ended September 30, 2001. Our net sales for the six months ended September 30, 2002 were $329.5 million, an increase of 17.4% from net sales of $280.6 million for the six months ended September 30, 2001. The increases in net sales for the three and six-month periods ended September 30, 2002, compared to the three and six-month periods ended September 30, 2001, were primarily due to increased demand predominantly for our proprietary products. Key factors in our success in achieving these increases in net sales during the three and six-month periods ended September 30, 2002 include:

- continued market share gains
- increased semiconductor content in our customers’ products
- new product offerings by us that have increased our served available market, and
- increased demand for our programmable solutions.
Sales by product line for the three and six-month periods ended September 30, 2002 and September 30, 2001 were as follows (in thousands):

<table>
<thead>
<tr>
<th>Product Line</th>
<th>Three Months Ended September 30, (Unaudited)</th>
<th>Six Months Ended September 30, (Unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002 %</td>
<td>2001 %</td>
</tr>
<tr>
<td>Microcontrollers</td>
<td>134,129 79.0%</td>
<td>109,749 77.5%</td>
</tr>
<tr>
<td>Serial EEPROM products</td>
<td>22,973 13.5%</td>
<td>19,990 14.1%</td>
</tr>
<tr>
<td>Analog and interface products</td>
<td>12,646 7.5%</td>
<td>11,923 8.4%</td>
</tr>
<tr>
<td>Total sales</td>
<td>169,748 100.0%</td>
<td>141,662 100.0%</td>
</tr>
</tbody>
</table>

**Microcontrollers**

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 79% of our total net sales in each of the three and six-month periods ended September 30, 2002.

Microcontrollers and associated applicable development systems accounted for approximately 78% of our total net sales for the three-month period ended September 30, 2001, and 77% of our total net sales for the six-month period ended September 30, 2001.

Net sales of our microcontroller products increased approximately 22.2% in the three-month period ended September 30, 2002, and 19.5% in the six-month period ended September 30, 2002, compared to the three and six-month periods ended September 30, 2001. These sales increases were primarily due to increased demand for our microcontroller products in end markets driven principally by market share gains and those factors described above at page 11. The end markets that we serve include the automotive, communications, computing, consumer and industrial control markets.

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 been able to in the past, and expect to be able to in the future, 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 would adversely affect our operating results.

**Serial EEPROM Products**

Sales of our Serial EEPROM products accounted for approximately 14% of our net sales in each of the three and six-month periods ended September 30, 2002.

Sales of our Serial EEPROM products accounted for approximately 14% of our total net sales for the three-month period ended September 30, 2001, and 15% of our total net sales for the six-month period ended September 30, 2001.
Net sales of our Serial EEPROM products increased approximately 14.9% in the three-month period ended September 30, 2002, and 8.8% in the six-month period ended September 30, 2002, compared to the three and six-month periods ended September 30, 2001. These sales increases were driven primarily by customer demand conditions within the Serial EEPROM market.

Serial EEPROM 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. During the periods covered by this report, we have experienced several Serial EEPROM product pricing trends due to market conditions. We experienced significant competitive downward pricing pressures in our Serial EEPROM product lines during the first half of fiscal 2002, returning to modest pricing declines in the second half of fiscal 2002. Serial EEPROM pricing was essentially flat during the three and six-month periods ended September 30, 2002. We currently anticipate Serial EEPROM pricing to be approximately flat in the third quarter of fiscal 2003, compared to the second quarter of fiscal 2003.

**Analog and Interface Products**

Sales of our analog and interface products accounted for approximately 8% of our total net sales in each of the three and six-month periods ended September 30, 2002 and September 30, 2001.

Net sales of our analog and interface products increased approximately 6.1% in the three-month period ended September 30, 2002, and 13.6% in the six-month period ended September 30, 2002, compared to the three and six-month periods ended September 30, 2001. These sales increases were driven primarily by new proprietary design wins, supply and demand conditions within the market and our ability to gain market share.

Analog and interface products can be proprietary or non-proprietary in nature. Currently, we consider approximately 40% of our analog and interface 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 and interface business will experience price fluctuations, driven primarily by the current supply and demand for those products. During the three-month period ending September 30, 2002, pricing of our non-proprietary analog and interface products decreased approximately 9% compared to the three-month period ended June 30, 2002. During the six-month period ending September 30, 2002, pricing of our non-proprietary analog and interface products was approximately flat compared to the three-month period ended March 31, 2002. We currently anticipate analog and interface product pricing to be approximately flat in the third quarter of fiscal 2003, compared to the second quarter of fiscal 2003. We may be unable to maintain the average selling prices of our analog and interface products as a result of increased pricing pressure in the future, which would adversely affect our operating results. We anticipate the proprietary portion of our analog and interface products to increase over time.

**Turns Orders**

Our net sales in any given quarter depend upon a combination of shipments from backlog and orders received in that quarter for shipment in that quarter, which we refer to as turns orders. We measure turns orders at the beginning of a quarter based on the orders needed to meet the revenue target that we set entering the quarter. We emphasize our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with short delivery schedules. Turns orders directly correlate to product lead times, which are currently between two and four weeks generally, essentially unchanged from lead times a year ago. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduces our visibility on future product shipments. With current lead times between two and four weeks generally, customers do not place orders beyond their immediate requirements.
The percentage of turns orders in any given quarter is dependent on overall semiconductor industry conditions and product lead times. As such, our percentage of turns orders has fluctuated over the last three fiscal years between 20% and 61%. At October 1, 2002, we required turns orders of approximately 60% in order to achieve our revenue target for the third quarter of fiscal 2003. At July 1, 2002, we required turns orders of approximately 50% to achieve our revenue target for the second quarter of fiscal 2003.

Turns orders are difficult to predict, and we may not experience the combination of turns orders and shipments from backlog in a quarter that would be sufficient to achieve anticipated net sales. If we do not achieve a sufficient level of turns orders in a particular quarter, our net sales and operating results will suffer.

The foregoing statements regarding competitive pricing pressure in our microcontroller product lines, our ability to moderate future average selling price declines in our microcontroller product lines, anticipated Serial EEPROM and analog and interface product pricing in the quarter ending December 31, 2002, the proprietary portion of our analog and interface product lines increasing over time, and the level of turns orders required to meet our revenue target for the third quarter of fiscal 2003 are forward-looking statements. Actual results could differ materially because of the following factors, among others: the level of orders that are received and can be shipped in a quarter; demand for our products and the products of our customers; the level at which previous design wins become actual orders; inventory mix and timing of customer orders; customers’ inventory levels, order patterns and seasonality; possible disruptions to our customers’ operations occasioned by any slowdown or cessation in international transport or delivery caused by labor strikes or work stoppages at international ports of delivery in the United States or elsewhere (such as the recent port lockouts on the West Coast of the U.S.) which could result in reduced customer purchases relative to our expectations; our ability to ramp products into volume production; competition and competitive pressures on pricing and product availability; possible disruption in commercial activities occasioned by terrorist activity and armed conflict, such as changes in logistics and security arrangements, and reduced end-user purchases relative to expectations; impact of events outside the United States, such as the business impact of fluctuating currency rates or unrest or political instability; the cyclical nature of both the semiconductor industry and the markets addressed by our products; market acceptance of our new products and those of our customers; the financial condition of our customers; fluctuations in production yields, production efficiencies and overall capacity utilization; changes in product mix; absorption of fixed costs, labor and other fixed manufacturing costs; and general industry, economic and political conditions.

Distribution


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

Sales by geography for the three and six-month periods ended September 30, 2002 and 2001 were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th></th>
<th>Six Months Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30,</td>
<td>2002</td>
<td>%</td>
<td>September 30,</td>
<td>2002</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>(Unaudited)</td>
<td></td>
<td></td>
<td>(Unaudited)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>$ 58,303</td>
<td>34.4%</td>
<td></td>
<td>$ 111,717</td>
<td>33.9%</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>42,811</td>
<td>25.2%</td>
<td></td>
<td>87,610</td>
<td>26.6%</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>68,634</td>
<td>40.4%</td>
<td></td>
<td>130,166</td>
<td>39.5%</td>
<td></td>
</tr>
<tr>
<td>Total Sales</td>
<td>$ 169,748</td>
<td>100.0%</td>
<td></td>
<td>$ 329,493</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

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 United States, Canada, Central America and South America.

Sales to foreign customers accounted for approximately 69% of our net sales in the three months ended September 30, 2002 and approximately 68% of our net sales in the three months ended September 30, 2001.

Sales to foreign customers accounted for approximately 71% of our net sales in the six months ended September 30, 2002 and approximately 69% of our net sales in the six months ended September 30, 2001. The majority of our foreign sales are U.S. Dollar denominated.

Gross Profit

Our gross profit was $91.5 million in the three months ended September 30, 2002, and $70.9 million in the three months ended September 30, 2001. Our gross profit was $175.4 million in the six months ended September 30, 2002, and $140.3 million in the six months ended September 30, 2001.

Gross profit as a percent of sales was 53.9% in the three months ended September 30, 2002, and 50.0% in the three months ended September 30, 2001. Gross profit as a percent of sales was 53.2% in the six months ended September 30, 2002, and 50.0% in the six months ended September 30, 2001.

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

- higher levels of manufacturing capacity utilization in the first and second quarters of fiscal 2003
- continued cost reductions in wafer fabrication and assembly and test manufacturing
- our ability to maintain average selling prices for our microcontroller products where moderate downward pricing pressures have been offset by introduction of new products with more features and higher selling prices
- significant competitive downward pricing pressures in Serial EEPROM products in the first and second quarters of fiscal 2002, compared to a more stable pricing environment in the first and second quarters of fiscal 2003
- fluctuations in the product mix of proprietary microcontroller and analog products and related Serial EEPROM products as illustrated in the chart in Net Sales on page 12
- the sale of inventory that was previously reserved for, and
- one-week plant shutdowns in each of the first and second quarters of fiscal 2002.
During fiscal 2002, we operated at approximately 70% of our cumulative total Fab 1 (Chandler, Arizona) and Fab 2 (Tempe, Arizona) capacity due to the capacity reductions implemented in the March 2001 quarter and one-week plant shutdowns in each quarter of fiscal 2002. Our overall gross margins were negatively impacted by these actions due to the relatively high fixed costs inherent in our wafer fabrication manufacturing, which continued even at lower capacity utilization levels in fiscal 2002. Capacity utilization increased to approximately 83% in the first quarter of fiscal 2003 and 84% in the second quarter of fiscal 2003, which favorably impacted gross margins, compared to the gross margins attained in fiscal 2002. We expect capacity utilization in the third quarter of fiscal 2003 to be approximately 84%.

Our overall inventory levels were $92.1 million as of September 30, 2002, compared to $88.6 million at March 31, 2002. We maintained 107 days of inventory on our balance sheet as of September 30, 2002, compared to 110 days as of March 31, 2002. The highest number of days of inventory that we experienced in either fiscal 2002 or fiscal 2003 was 127 days as of September 30, 2001. We expect days of inventory to be approximately 104 days as of December 31, 2002.

As of September 30, 2002, Fab 3 (Puyallup, Washington) was not an active operating asset. We are currently holding Fab 3 as an asset held-for-sale and are maintaining it at minimal operating cost. See “Special Charges – Fab 3 Impairment Charge,” below at page 18, for a complete discussion of the status of Fab 3.

Fabs 1 and 2 currently utilize various manufacturing process technologies, but predominantly utilize our 1.0 to 0.5-micron processes. We continue to transition products to more advanced process technologies to reduce future manufacturing costs. In fiscal 2002 and the first and second quarters of fiscal 2003, approximately 80% of our production was on 8-inch wafers.

We anticipate that gross margins will fluctuate over time, driven primarily by the overall product mix of microcontroller, analog and interface and Serial EEPROM products and the percentage of net sales of each of these products in a particular quarter, as well as manufacturing yields, fixed cost absorption, wafer fab loading levels and competitive and economic conditions.

The foregoing statements relating to our expected capacity utilization in the third quarter of fiscal 2003, our expected inventory levels as of December 31, 2002, the transition to advanced process technologies to reduce future manufacturing costs and the fluctuation of gross margins over time are forward-looking statements. Actual results could differ materially because of the following factors, among others: future demand for our products and the products of our customers; fluctuations in production yields, production efficiencies and overall capacity utilization; absorption of fixed costs, labor and other direct manufacturing costs; competition and competitive pressure on pricing; possible disruptions to our customers’ operations occasioned by any slow down or cessation in international transport or delivery caused by labor strikes or work stoppages at international ports of delivery in the United States or elsewhere (such as the recent port lockouts on the West Coast of the U.S.) which could result in reduced customer purchases relative to our expectations; possible disruption in commercial activities occasioned by terrorist activity and armed conflict, which could result in changes in logistics and security arrangements, and reduced end-user purchases relative to expectations; impact of events outside the United States, such as the business impact of fluctuating currency rates or unrest or political instability; our ability to increase manufacturing capacity as needed; cost and availability of raw materials; changes in product mix; and other general industry, economic and political conditions.

At September 30, 2002, approximately 74% of our assembly requirements were being performed in our Thailand facility, compared to approximately 48% as of September 30, 2001. Third-party contractors located throughout Asia perform the balance of our assembly operations. Substantially all of our test requirements were being performed in our Thailand facility as of September 30, 2002 and September 30, 2001. We believe that the assembly and test operations performed at our Thailand facility provide us with significant cost savings when compared to third-party contractor assembly and test costs, as well as increased control over these portions of the manufacturing process.
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.

Our reliance on foreign operations, maintenance of substantially all of our finished goods in inventory at foreign locations, and significant foreign sales exposes us to foreign political and economic risks, including:

- political, social and economic instability
- trade restrictions and changes in tariffs
- import and export license requirements and restrictions
- difficulties in staffing and managing international operations
- employment regulations
- disruptions in international transport or delivery
- fluctuations in currency exchange rates
- difficulties in collecting receivables
- economic slowdown in the worldwide markets served by us, and
- potentially adverse tax consequences.

To date, we have not experienced any significant interruptions in our foreign business operations. If any of these risks materialize, our sales could decrease and our operating results could suffer.

Research and Development

Research and development (R&D) expenses for the three months ended September 30, 2002 were $22.3 million, or 13.2% of sales, compared to $20.2 million, or 14.2% of sales, for the three months ended September 30, 2001. R&D expenses for the six months ended September 30, 2002 were $43.9 million, or 13.3% of sales, compared to $39.7 million, or 14.2% of sales, for the six months ended September 30, 2001.

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. We expense all R&D costs as incurred. R&D expenses include expenditures for 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 $2.2 million, or 10.8%, for the three months ended September 30, 2002, compared to the three months ended September 30, 2001. R&D expenses increased $4.2 million, or 10.6%, for the six months ended September 30, 2002, compared to the six months ended September 30, 2001. R&D expenses increased $0.8 million, or 3.6%, for the three months ended September 30, 2002, compared to the three months ended June 30, 2002. The primary reason for the dollar increase in R&D costs in each of these periods was increased labor and professional service costs associated with expanding our technical resources. There was also an unpaid one-week plant shut down for all employees in the quarter ended September 30, 2001.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended September 30, 2002 were $23.1 million, or 13.6% of sales, compared to $20.2 million, or 14.2% of sales, for the three months ended September 30, 2001. Selling, general and administrative expenses for the six months ended September 30, 2002 were $45.1 million, or 13.7% of sales, compared to $41.6 million, or 14.8% of sales, for the six months ended September 30, 2001.
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 $3.0 million, or 14.7%, for the three months ended September 30, 2002, compared to the three months ended September 30, 2001. Selling, general and administrative expenses increased $3.5 million, or 8.3%, for the six months ended September 30, 2002, compared to the six months ended September 30, 2001. Selling, general and administrative expenses increased $1.2 million, or 5.4%, for the three months ended September 30, 2002, compared to the three months ended June 30, 2002. The primary reason for the dollar increase in selling, general and administrative costs in these periods relate to increased labor costs. There was also an unpaid one-week plant shut down for all employees in the September 30, 2001 quarter.

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

Special Charges

Fab 3 Impairment Charge

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which is applicable to financial statements for fiscal years beginning after December 15, 2001. This standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify as asset as held-for-sale. Classification as held-for-sale is an important distinction because assets held-for-sale are not depreciated and are stated at the lower of book value or fair value less cost to sell. SFAS 144 is effective for all of our financial statements issued in fiscal 2003. In accordance with SFAS 144, we recorded a $41.5 million asset impairment charge during the quarter ended September 30, 2002 as described below.

We acquired Fab 3, a semiconductor manufacturing facility in Puyallup, Washington, in July 2000. The original purchase consisted of semiconductor manufacturing facilities and real property. It was the our intention to bring Fab 3 to productive readiness and commence volume production of 8-inch wafers using our 0.7 and 0.5 micron process technologies by August 2001. We delayed our production start up at Fab 3 due to deteriorating business conditions in the semiconductor industry. Fab 3 has never been brought to productive readiness.

On August 23, 2002, we acquired a semiconductor manufacturing facility in Gresham, Oregon, which we refer to as Fab 4. See Note 2 to the Condensed Consolidated Financial Statements on page 6, above. We decided to purchase Fab 4 instead of bringing Fab 3 to productive readiness because, among other things, the cost of the manufacturing equipment needed to ramp production at Fab 3 over the next several years was significantly higher than the total purchase price of Fab 4, and the time to bring Fab 4 to productive readiness was significantly less than the time required to bring Fab 3 to productive readiness.

After the acquisition of Fab 4 was completed, we undertook an analysis of the potential production capacity at Fab 4. The results of the production capacity analysis led us to determine that Fab 3’s capacity would not be needed in the foreseeable future and during the second quarter we committed to a plan to sell Fab 3. Accordingly, Fab 3 has been classified as an asset held-for-sale at September 30, 2002.

We retained an independent third party firm, other than our independent auditors, to complete a fair value appraisal of Fab 3. The independent third party used the market approach and considered comparable sales in determining the fair value of Fab 3. The comparable sales included eight properties, including Fab 3 from our purchase in 2000. Based on the results of this appraisal, we recorded an asset impairment charge on Fab 3 of
$36.9 million, including costs to sell. The remaining value of $60.2 million is classified as an asset held-for-sale and is included as a component of other current assets at September 30, 2002.

During the quarter ended September 30, 2002, we also recorded an asset impairment charge of $4.6 million to write-down certain excess manufacturing equipment located at Fab 3 to its net realizable value of $212,000. This manufacturing equipment became “excess” as a result of duplicate equipment acquired in the purchase of Fab 4. The net realizable value for the excess manufacturing equipment was determined based on management estimates. Substantially all of the other manufacturing equipment located at Fab 3 will be transferred to and used in our other wafer fabrication facilities located in Chandler, Arizona (Fab 1), Tempe, Arizona (Fab 2) and Gresham, Oregon (Fab 4).

If actual market conditions are less favorable than those estimated in the appraisal, or if future market conditions deteriorate, the net proceeds from the assets held-for-sale could be less than the amount estimated in the financial statements and additional losses could result prior to or at the time of the sale of the facility.

PowerSmart In-Process Research and Development Charge

During the quarter ended June 30, 2002, purchased in-process research and development of $9.3 million, associated with our acquisition of PowerSmart, Inc. was written off at the date of the acquisition (June 5, 2002) in accordance with FASB Interpretation No. 4, “Applicability of FASB Statement No. 2 Business Combinations Accounted for by the Purchase Method.” The value assigned to the in-process research and development was determined by an independent valuation analysis performed by a firm other than our independent auditors. As of the valuation date, there were 15 projects that were considered to be in-process. The values of the projects were determined based on analyses of cash flows to be generated by the products that are expected to result from the in-process projects. These cash flows were estimated by forecasting total revenues expected from these products then deducting appropriate operating expenses, cash flow adjustments and contributory asset returns to establish a forecast of net return on in-process technology. These net returns were substantially reduced to take into account the time value of money and the risks associated with the inherent difficulties and uncertainties in achieving commercial readiness. The above analysis resulted in $9.3 million of value assigned to acquired in-process research and development, which was expensed on the acquisition date in accordance with FIN 4. We believe the assumptions used in valuing the in-process research and development are reasonable, but are inherently uncertain, and no assurance can be given that the assumptions made will occur. During the six months ended September 30, 2002, we incurred development costs of approximately $1.2 million related to the acquired in-process research and development, and should the projects continue to move toward commercialization, we estimate that future expenditures could approximate $1.5 million over the next few years. None of the in-process research and development projects had been completed as of September 30, 2002.

There were no such special charges incurred during the three and six-month periods ended September 30, 2001.

The foregoing statement relating to our estimated future expenditures on the acquired in-process R&D projects is a forward-looking statement. Actual results could differ materially because of the following factors, among others: delays in completion of a particular project; changes in our prioritization of projects; changes in the specifications of a particular project; unforeseen engineering problems; and unanticipated costs.

Other Income (Expense)

Interest income decreased in the three and six-month periods ended September 30, 2002 from the corresponding periods of the previous fiscal year due to lower invested cash balances as a result of our August 23, 2002 acquisition of Fab 4 and our June 5, 2002 acquisition of PowerSmart. The interest rates applying to our invested cash balances were lower during the three and six-month periods ended September 30, 2002, compared to the rates applying during the corresponding periods of the previous fiscal year.


Income Taxes

Provisions for income taxes reflect tax on foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate of 15.9% for the six months ended September 30, 2002, and 27.0% for the six months ended September 30, 2001. During the six months ended September 30, 2002, our effective tax rate was lower than it has been historically due to the special charge incurred during the second quarter of fiscal 2003. Under Accounting Principles Board Opinion No. 28, Interim Financial Reporting, we provide for an income tax provision/benefit for special charges in the period in which they occur separately from our calculation of the estimated effective tax rate for the remainder of our operations. Given that the special charge in the second quarter of fiscal 2003 was incurred in the United States, we provided a tax benefit in the September 30, 2002 quarter based on the 40% U.S. tax rate that we expect to apply to the special charges. Based on our current assumptions, we believe that our tax rate for the remainder of fiscal 2003 will be approximately 25.5%.

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 sheet. We must then assess the likelihood that our deferred tax asset 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 not provided for a valuation allowance because we believe that our deferred tax asset will be recovered from future taxable income. 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 September 30, 2002, our gross deferred tax asset was $112.1 million. Numerous taxing authorities in the countries in which we do business are increasing their scrutiny of various tax structures employed by businesses. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon audit in the United States and the 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.

Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. We are currently under audit by the Internal Revenue Service for our fiscal years ended March 31, 1998, 1999, 2000 and 2001.

The foregoing statements regarding our tax rate for the remainder of fiscal 2003, the recoverability of our deferred tax asset and the adequacy of our tax reserves are forward-looking statements. Actual results could differ materially because of the following factors, among others: current and future tax laws and regulations; taxation rates in geographic regions where we have significant operations; results of any current or future audit conducted by the Internal Revenue Service or other taxing authorities in the countries in which we do business; and the level of our taxable income and whether our taxable income will be sufficient to utilize our deferred tax asset.

Euro Conversion Issues

We operate in the European Market and currently generate approximately 25.2% of our total net sales from customers located in Europe. Our commercial headquarters in Europe are located in the United Kingdom, which is not currently one of the 11 member states of the European Union that has converted to the Euro.

We currently conduct approximately 94.6% of our business in Europe in U.S. Dollars and approximately 0.2% of our business in Europe in Pounds Sterling. The balance of our net sales in Europe is conducted in the Euro. We will monitor the potential commercial impact of conversion of a portion of our current business to the Euro, but we do not currently anticipate any material impact to our business or operations based on this transition.
Liquidity and Capital Resources

We had $141.3 million in cash and cash equivalents at September 30, 2002, a decrease of $139.3 million from the March 31, 2002 balance. The decrease in cash and cash equivalents over this time period is primarily attributable to the cash used in our June 5, 2002 acquisition of PowerSmart and our August 23, 2002 acquisition of Fab 4, offset by cash generated from operating activities.

We maintain an unsecured revolving credit facility with a syndicate of banks totaling $100.0 million. We can elect to increase the facility to $150.0 million, subject to certain conditions set forth in the credit agreement. This facility has a termination date of May 31, 2003. There were no borrowings against this line of credit as of September 30, 2002. We are required to achieve certain financial ratios and operating results to maintain this line of credit and were in compliance with these requirements at September 30, 2002.

We also maintain an unsecured short-term line of credit with various financial institutions in Asia for up to $15.0 million (U.S. Dollar equivalent). There were no borrowings under the foreign line of credit as of September 30, 2002, but an allocation of approximately $0.8 million of the available line was made, relating to import guarantees associated with our business in Thailand. There are no covenants related to the foreign line of credit.

At September 30, 2002, an aggregate of $114.2 million of our credit facilities was available, subject to financial covenants and ratios with which we were in compliance. Our ability to fully utilize our credit facilities is dependent on our remaining in compliance with such covenants and ratios.

During the six months ended September 30, 2002, we generated $128.5 million of cash from operating activities, an increase of $74.3 million from the six months ended September 30, 2001. The increase in cash flow from operations was primarily due to the non-cash impact of the $41.5 million Fab 3 impairment charge and the $9.3 million in-process research and development charge, and the impact of changes in accounts payable and accrued liabilities and other assets and liabilities.

During the six months ended September 30, 2002, net cash used in investing activities increased $247.4 million, to $277.3 million, from $29.9 million for the six months ended September 30, 2001. The increase was due to our acquisitions of Fab 4 and PowerSmart and increased capital expenditures.

We enter into hedging transactions from time to time in an attempt to minimize 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.

On August 7, 2002, our Board of Directors authorized the repurchase up to 2,500,000 shares of our common stock in the open market or in privately negotiated transactions. During the quarter ended September 30, 2002, we repurchased 392,700 shares of common stock for $7,449,781. 332,700 of the purchased shares were reissued during the quarter ended September 30, 2002 to fund stock option exercises and purchases under our employee stock purchase plan. At September 30, 2002, there were 60,000 purchased shares held as treasury shares. The timing and amount of any future repurchases will depend upon market conditions and corporate considerations.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the six months ended September 30, 2002 were $226.6 million, compared to $30.9 million for the six months ended September 30, 2001. The primary reasons for the dollar increase in capital expenditures in the six-month period ended September 30, 2002 were the purchase of Fab 4, other selective investments to increase our manufacturing capacity in response to market demand and our continued investment in research and development equipment. We currently intend to spend approximately $70 million during the next
12 months to invest in equipment and facilities to maintain, and selectively increase, capacity to meet our currently anticipated needs.

We expect to generate approximately $55 million in cash from operating activities and grow our cash balances by approximately $45 million in the quarter ending December 31, 2002.

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 declared is $0.02 per share and is payable to shareholders of record on November 7, 2002. We estimate the initial quarterly dividend payment to be approximately $4.1 million to be paid in the third quarter of fiscal 2003.

We expect to finance capital expenditures through our existing cash balances, cash flows from operations, available debt arrangements and other sources of financing, including possible issuances of equity and debt securities depending on market conditions. We believe that the capital expenditures anticipated to be incurred over the next 12 months will provide sufficient manufacturing capacity to meet our currently anticipated needs.

The foregoing statements regarding the anticipated level of capital expenditures over the next 12 months and the nature of such expenditures, the amount of cash to be generated from operating activities in the quarter ending December 31, 2002, the projected growth in our cash balances during the quarter ending December 31, 2002, the financing and sufficiency of our capital expenditures and the belief that capital expenditures anticipated to be incurred over the next 12 months will provide us sufficient manufacturing capacity to meet our currently anticipated needs are forward-looking statements. Actual results could differ materially because of the following factors, among others: changes in demand for our products and those of our customers; changes in utilization of current manufacturing capacity; unanticipated costs in bringing Fab 4 on-line; market acceptance of our products and of our customers’ products; the cyclical nature of the semiconductor industry and the markets addressed by our products; the availability and cost of raw materials, equipment and other supplies; actual cash flows generated from and used in the operation of our business; actual levels of capital expenditures; the financial condition of our customers and vendors; uninsured losses; and the economic, political and other conditions in the worldwide markets served by us.

Net cash provided by financing activities was $9.5 million for the six months ended September 30, 2002, compared to $16.9 million for the six months ended September 30, 2001. Proceeds from the sale of stock options were $9.5 million in the six months ended September 30, 2002 and $16.9 million in the six months ended September 30, 2001.

We had a net shares settled forward contract outstanding as of September 30, 2001. In connection with this contract, we made a net delivery of 572,645 shares of our common stock during the six months ended September 30, 2001. We closed out the net shares settled forward contract in its entirety on January 15, 2002 and made a cash payment of $27.8 million to purchase the remaining 1,610,606 shares outstanding under the contract. The purchased shares were held as treasury shares and used to fund stock option exercises and purchases under our employee stock purchase plan through April 9, 2002.

We believe that our existing sources of liquidity combined with cash generated from operations will be sufficient to meet our currently anticipated cash requirements for at least the next 12 months. However, the semiconductor industry is capital intensive. In order to remain competitive, we must constantly evaluate the need to make significant investments in capital equipment for both production and research and development. We may seek additional equity or debt financing during the next 12 months for the capital expenditures required to maintain or expand our wafer fabrication and product assembly and test facilities, or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including demand for our products, changes in industry conditions, product mix, and competitive factors. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in incremental dilution to existing stockholders.
Additional Factors That May Affect Results of Operations

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

Our quarterly operating results may fluctuate due to factors that could reduce our net sales and profitability.

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

- demand for our products in the distribution and OEM channels
- the level at which previous design wins become actual orders
- the level of orders that are received and can be shipped in a quarter (turns orders)
- market acceptance of both our products and our customers’ products
- customer order patterns and seasonality
- downward pricing pressures in our non-proprietary product lines
- possible disruption in commercial activities or international transport or delivery caused by terrorist activity, armed conflict, or unexpected increases in the price of, or decrease in the supply of, oil, any of which could result in changes in logistics and security arrangements, and reduced customer purchases relative to expectations
- possible disruptions to our customers’ operations occasioned by any slow down or cessation in international transport or delivery caused by labor strikes or work stoppages at international ports of delivery in the United States or elsewhere (such as the recent port lockouts on the West Coast of the U.S.) which could result in reduced customer purchases relative to our expectations
- impact of events outside of the United States, such as the business impact of fluctuating currency rates or unrest or political instability
- disruption in the supply of wafers or assembly and testing services
- availability of manufacturing capacity, the extent of effective use of manufacturing capacity and fluctuations in manufacturing yields
- the availability and cost of raw materials, equipment and other supplies
- the costs and outcome of any litigation involving intellectual property, customer and other issues
- uninsured losses, and
- economic, political and other conditions in the worldwide markets served by us.

We believe that period-to-period comparisons of our operating results are not necessarily meaningful and that you should not rely upon any such comparisons as indications of future performance. In future periods our operating results may fall below the expectations of public market analysts and investors, which would likely have a negative effect on the price of our common stock.

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

The manufacture and assembly of integrated circuits, particularly non-volatile, erasable CMOS memory and logic devices such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used and the performance of our wafer fabrication personnel and equipment. As is typical in the semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at approximately the current levels.
Our operating results are also adversely affected when we operate at less than optimal capacity as was the case throughout fiscal 2002 and the first and second quarters of fiscal 2003. Lower capacity utilization results in certain costs being charged directly to expense and lower gross margins.

*If we do not bring our Fab 4 (Gresham, Oregon) wafer fabrication facility on line in a timely manner, our anticipated revenues may be reduced and we would incur fixed expenses that would reduce our gross margins in future periods.*

On August 23, 2002, we acquired a semiconductor facility in Gresham, Oregon, which we refer to as Fab 4. We currently anticipate that Fab 4 will commence volume production in the second quarter of fiscal 2004. Bringing Fab 4 on-line involves significant risks, including:

- successful implementation of our 0.5 micron manufacturing process at Fab 4
- effective integration of a variety of hardware and software components
- potential shortages of materials and skilled labor
- unforeseen environmental or engineering problems
- approvals and requirements of governmental and regulatory agencies, and
- unanticipated costs.

Any one of these risks could delay the equipping and production start-up of Fab 4, and could involve significant additional costs or reduce our anticipated revenues.

As a result of these and other factors, Fab 4 may not commence volume production when anticipated or within budget. Also, we may be unable to achieve adequate manufacturing yields in Fab 4 in a timely manner and our revenues may not increase in proportion to the anticipated increase in manufacturing capacity associated with Fab 4 which would harm our operating results.

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

Our net sales in any given quarter depend upon a combination of shipments from backlog and orders received in that quarter for shipment in that quarter, which we refer to as turns orders. We emphasize our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with short delivery schedules. The percentage of turns orders in any given quarter depends on overall semiconductor industry conditions and product lead times. Shorter lead times generally means that turns orders as a percentage of our business is relatively high in any particular quarter and reduces our visibility on future product shipments.

As such, our percentage of turns orders has fluctuated over the last three fiscal years between approximately 20% and 61%. As of October 1, 2002, we required turns orders of approximately 60% in order to achieve our revenue target for the third quarter of fiscal 2003. Because turns orders are difficult to predict, increased levels of turns orders make our net sales more difficult to forecast.

If we do not achieve a sufficient level of turns orders in a particular quarter relative to our projections, our revenue and operating results will suffer.
Intense competition in our markets may lead to pricing pressures, reduced sales of our products and reduced market share.

The semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and substantially greater financial, technical, marketing, distribution and other resources than we with which to pursue engineering, manufacturing, marketing and distribution of their products. Emerging companies are also increasing their participation in the market for embedded control applications. We may be unable to compete successfully in the future, which could harm our business.

Our ability to compete successfully depends on a number of factors both within and outside our control, including:

- the quality, performance, reliability, features, ease of use, pricing and diversity of our products
- the quality of our customer service and our ability to address the needs of our customers
- our success in designing and manufacturing new products including those implementing new technologies
- the rate at which customers incorporate our products into their own products
- our level of manufacturing capacity utilization and manufacturing yields
- our ability to hire and retain qualified engineering and management personnel
- product introductions by our competitors
- the number, nature and success of our competitors in a given market
- our ability to obtain adequate supplies of raw materials and other supplies at acceptable prices
- our ability to protect our products and processes by effective utilization of intellectual property laws, and
- general market and economic conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller and proprietary analog and interface products have remained relatively constant, while average selling prices of our Serial EEPROM and non-proprietary analog and interface products have declined over time. We have experienced, and expect to continue to experience, pricing pressure in certain of our proprietary product lines, due primarily to competitive conditions. We have been able to moderate average selling price declines in many of our proprietary product lines by continuing to introduce new products with more features and higher prices. We experienced significant competitive downward pricing pressures in our Serial EEPROM product lines during the first half of fiscal 2002, which moderated in the third and fourth quarters of fiscal 2002 and the first half of fiscal 2003.

We may be unable to maintain average selling prices for our microcontroller or other products as a result of increased pricing pressure in the future, which would reduce our operating results.

We must attract and retain qualified personnel to be successful, and competition for qualified personnel is intense in our market.

Our success depends to a significant extent upon the efforts and abilities of our senior management, engineering and other personnel. The competition for qualified engineering and management personnel is intense. We may be unsuccessful in retaining our existing key personnel or in attracting and retaining additional key personnel that we require. The loss of the services of one or more of our key personnel or the inability to add key personnel could harm our business. We have no employment agreements with any member of our senior management team.
Our success depends on our ability to introduce new products on a timely basis.

Our future operating results will depend to a significant extent on our ability to develop and introduce new products on a timely basis that can compete effectively on the basis of price and performance and which address customer requirements. The success of new product introductions depends on various factors, including:

- proper new product selection
- timely completion and introduction of new product designs
- development of support tools and collateral literature that make complex new products easy for engineers to understand and use, and
- market acceptance of our customers’ end products.

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

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

General conditions in the insurance industry may affect our costs and increase the risks to our business operations.

As conditions in the insurance industry have resulted in decreased capacity and increased insurance rates over the last two fiscal years, our liability, property and casualty insurance coverage levels have decreased and our retained risk exposure from uninsured losses has increased. We have not made any material change to our operations as a result of the reduced coverage. Availability and cost of insurance coverage have generally fluctuated over time as the insurance industry reacts to various market forces and we will consider changes in our coverage levels based on conditions in the insurance market.

We contract with several third-party contractors in Asia to perform key manufacturing functions for us.

We use several third-party contractors located throughout Asia for a portion of the assembly and testing of our products and for a portion of the wafer fabrication of our analog products. Although we have reduced our dependence on third-party contractors over time, the disruption or termination of any of these sources could harm our business and operating results. Our use of third parties involves some reduction in our level of control over the portions of our business that we subcontract. Our future operating results could suffer if any third-party contractor were to experience financial, operations or production difficulties, or if they were unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels.

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

Our semiconductor manufacturing operations require raw materials and equipment that must meet exacting standards. We generally have more than one source for these supplies, but there are only a limited number of suppliers capable of delivering various raw materials and equipment that meet our standards. In addition, the raw materials and equipment necessary for our business could become more difficult to obtain as worldwide use of semiconductors in product applications increases. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time than expected to fill our orders or that they will no longer support certain equipment with updates or spare and replacements parts. An
interruption of any raw materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business.

Our business is highly dependent on selling through distributors.

Sales through distributors accounted for 63% of our net sales for the fiscal year ended March 31, 2002 and 60% of sales in the first half of fiscal 2003. Sales through one distributor accounted for 13% of our net sales in fiscal 2002 and 12% of our total net sales for the first half of fiscal 2003. Generally, we do not have long-term agreements with our distributors and our distributors may terminate their relationship with us with little or no advanced notice.

The loss of, or a disruption in the operations of, one or more of our distributors could reduce our net sales in a given quarter and could result in an increase in inventory returns.

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

The semiconductor industry is characterized by wide fluctuations of supply and demand. Throughout fiscal 2001 and fiscal 2002, the industry experienced a significant economic downturn, characterized by diminished product demand and production over-capacity. These conditions have continued during the first half of fiscal 2003. We have sought to reduce our exposure to this industry cyclicality by selling proprietary products, that cannot be easily or quickly replaced, to a geographically diverse base of customers across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and may, in the future, experience period-to-period fluctuations in operating results due to general industry or economic conditions.

Intellectual property claims and litigation could subject us to significant liability for damages and could invalidate our proprietary rights.

As is typical in the semiconductor industry, we and our customers have from time to time received, and may in the future receive, communications from third parties asserting patent or other intellectual property rights on certain of our products or technologies. In the event a third party were to make a valid intellectual property claim and a license or other agreement was not available on commercially reasonable terms, our operating results could be harmed. We have in the past been, are currently, and may in the future be, involved in litigation to defend Microchip against alleged infringement of the rights of others or to enforce our intellectual property rights. Litigation could result in substantial cost to us and divert our resources. An unfavorable outcome in any such suit could harm our business, financial condition or results of operations.

Our ability to obtain patents, licenses and other intellectual property rights covering our products and manufacturing processes is important for our success. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our inventions and manufacturing processes. The process of seeking patent protection can be long and expensive, and patents may not be issued from currently pending or future applications. In addition, our existing patents and any new patents that are issued may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. We may be subject to or may initiate interference proceedings in the U.S. Patent and Trademark Office, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States.

We do not have long-term contracts with our customers.

We do not typically enter into long-term contracts with our customers and we cannot be certain as to future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. In the event of any early termination of a contract by one of our
major customers, it is unlikely that we would be able to rapidly replace that revenue source which would harm our financial results.

Business interruptions could harm our business.

Operations at any of our primary manufacturing facilities, or at any of our wafer fabrication or test and assembly subcontractors, may be disrupted for reasons beyond our control, including work stoppages, power loss, incidents of terrorism, political instability, telecommunications failure, fire, earthquake, floods, or other natural disasters. If operations at any of our facilities or by any of our subcontractors are interrupted, we may not be able to shift production to other facilities on a timely basis. If this occurs, we may experience delays in shipments of products to our customers and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues and profits and the cancellation of orders or loss of customers. In addition, business interruption insurance will likely not be enough to compensate us for any losses that may occur and any losses or damages incurred by us as a result of business interruptions could significantly harm our business.

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

Sales to foreign customers account for a substantial portion of our net sales. During the fiscal year ended March 31, 2002, approximately 69% of our net sales were made to foreign customers. During the first half of fiscal 2003, approximately 71% of our net sales were made to foreign customers. We purchase a substantial portion of our raw materials and equipment from foreign suppliers. In addition, we own a product assembly and testing facility located near Bangkok, Thailand. We also use various third-party contractors located throughout Asia for a portion of the assembly and testing of our products and for a portion of the wafer fabrication of our analog products.

Our reliance on foreign operations, maintenance of substantially all of our finished goods in inventory at foreign locations and significant foreign sales exposes us to foreign political and economic risks, including:

- political, social and economic instability
- trade restrictions and changes in tariffs
- import and export license requirements and restrictions
- difficulties in staffing and managing international operations
- employment regulations
- disruptions in international transport or delivery
- fluctuations in currency exchange rates
- difficulties in collecting receivables
- economic slowdown in the worldwide markets served by us, and
- potentially adverse tax consequences.

If any of these risks materialize, our sales could decrease and our operating results could suffer.

We are subject to stringent environmental regulation, which may force us to incur significant expenses.

We must comply with many different federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing processes. Although we believe that our activities conform to presently applicable environmental regulations, our failure to comply with present or future regulations could result in the imposition of fines, suspension of production or a cessation of operations. Any such regulation could require us to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. Any failure by us to control the use of or adequately restrict the discharge of hazardous substances could subject us to future liabilities. Environmental problems at our facilities may occur that could subject us to future costs or liabilities.
In 1993, TelCom Semiconductor, Inc., with whom we merged in January 2001, acquired the semiconductor manufacturing operations of Teledyne, Inc. previously conducted at TelCom’s Mountain View, California facility. The semiconductor manufacturing operations conducted by Teledyne at the facility allegedly contaminated the soil and groundwater of the facility, and the groundwater of properties located down-gradient of the facility. Although TelCom was indemnified by Teledyne against, among other things, any liabilities arising from any such contamination, and although we should be able to benefit from this indemnification as a successor to TelCom’s business, we cannot assure you that claims will not be made against us or that such indemnification will be available or will provide meaningful protection at the time any such claim is brought. To the extent that we are subject to a claim that is not covered by the indemnity from Teledyne or as to which Teledyne is unable to provide indemnification, our financial condition or operating results could suffer.

Our failure to successfully integrate businesses, products or technologies we acquire could disrupt or harm our ongoing business.

We have from time to time acquired, and may in the future acquire, additional complementary businesses, products and technologies. Achieving the anticipated benefits of an acquisition depends, in part, upon whether the integration of the acquired business, products or technology is accomplished efficiently and effectively. In addition, successful acquisitions in the semiconductor industry may be more difficult to accomplish than in other industries because such acquisitions require, among other things, integration of product offerings, manufacturing operations and coordination of sales and marketing and R&D efforts. These difficulties can become more challenging due to the need to coordinate geographically separated organizations, the complexities of the technologies being integrated, and the necessities of integrating personnel with disparate business background and combining two different corporate cultures. The integration of operations following an acquisition also requires the dedication of management resources, which may distract attention from the day-to-day business and may disrupt key R&D, marketing or sales efforts. The inability of our management to successfully integrate any future acquisition could harm our business. Furthermore, products acquired in connection with acquisitions may not gain acceptance in our markets, and we may not achieve the anticipated or desired benefits of such transaction.

PowerSmart, Inc., which we acquired on June 5, 2002, depended on third-party wafer manufacturers for all of its product requirements. Any inability or unwillingness of PowerSmart’s wafer suppliers to meet these manufacturing requirements would significantly delay our ability to produce and ship PowerSmart products.

While Microchip has historically manufactured virtually all of its own wafers, PowerSmart purchased its wafers primarily from two outside foundries. Each of these foundries also fabricates wafers for other semiconductor companies, including some of our competitors. One of the foundries used by PowerSmart is a direct competitor of ours. During fiscal 2003, we expect to continue to rely on these wafer suppliers to supply a substantial portion of the wafers that are required to support the business that we acquired from PowerSmart. We may be unable to acquire wafers from these foundries if they experience manufacturing failures, yield shortfalls or other situations when demand exceeds capacity or for other reasons. In such case, we may not be able to qualify additional manufacturing sources for existing PowerSmart products on a timely manner or at all, and such arrangements, if any, may not be on favorable terms to us.

Although current market conditions in the semiconductor industry indicate that there is sufficient manufacturing capacity at outside foundries, a significant increase in demand for PowerSmart products during fiscal 2003 could result in wafers being in short supply and prevent us from having an adequate supply to meet our customer requirements and meet requested delivery dates for customers of our PowerSmart products.

Recently enacted and proposed changes in securities laws and related regulations could result in increased costs to us.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC, Nasdaq and the NYSE, could
result in increased costs to us as we evaluate the implications of any new rules and respond to their requirements. The new rules could make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In this regard, during the recent annual renewal of our director and officer liability insurance policy, we experienced substantially reduced policy limits and terms at a significant cost increase compared to our prior coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs.

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

The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate in the future. The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors, many of which are beyond our control, including:

- quarterly variations in our operating results and the operating results of other technology companies
- actual or anticipated announcements of technical innovations or new products by us or our competitors
- changes in analysts’ estimates of our financial performance or buy/sell recommendations
- general conditions in the semiconductor industry, and
- worldwide political, economic and financial conditions.

In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the market prices for many high technology companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations and other factors may harm the market price of our common stock.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investment portfolio, consisting of fixed income securities, was $136.7 million as of September 30, 2002, and $247.6 million as of March 31, 2002. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. If market rates were to increase immediately and uniformly by 10% from the levels of September 30, 2002 and March 31, 2002, the decline in the fair value of our investment portfolio would not be material. Additionally, we have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize an adverse impact on income or cash flows.

We have international operations and are thus subject to foreign currency rate fluctuations. To date, our exposure related to exchange rate volatility has not been significant. If the foreign currency rates fluctuate by 15% from the rates at September 30, 2002 and March 31, 2002, the effect on our financial position and results of operations would not be material.

During the normal course of our business, we are routinely subjected to a variety of market risks, examples of which include, but are not limited to, interest rate movements and foreign currency fluctuations, as we discuss in this Item 3, and collectability of accounts receivable. We constantly assess these risks and have established policies and procedures to protect against the adverse affects of these other potential exposures. Although we do not anticipate any material losses in these risk areas, no assurance can be made that material losses will not be incurred in these areas in the future.
We believe that our market risk, as discussed in this Item 3, has not materially changed from March 31, 2002.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of our filing of this quarterly report on Form 10-Q, referred to as the “Evaluation Date”, have concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure the timely collection, evaluation and disclosure of information relating to us and our consolidated subsidiaries that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Changes in Internal Controls

There were no significant changes in our internal controls or other factors that could significantly affect our internal controls subsequent to the Evaluation Date. No significant deficiencies or material weaknesses were identified in the evaluation of our internal controls and therefore no corrective actions have been taken.

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS


As reported in our annual report on Form 10-K for the fiscal year ended March 31, 2002 and our quarterly report on Form 10-Q for the quarter ended June 30, 2002, on October 26, 2001, we filed an action in federal district court in Arizona for declaratory relief against U.S. Philips Corporation and Philips Electronics North America Corp. requesting that the Court declare, among other matters, that we do not infringe Philips’ U.S. Patent Nos. 4,689,740 and 5,559,502. We initiated legal action so that a determination could be made relating to the validity, enforceability and alleged infringement of, and our license to, the Philips’ patents. In response to our filing the declaratory judgment action in Arizona, Philips filed an action against us in federal district court in New York, alleging infringement of the ’740 patent and seeking unspecified damages and injunctive relief. There were no material developments in the litigation during the quarter ended September 30, 2002. We intend to litigate this matter vigorously. We currently believe that the outcome of this matter will not have a material adverse effect on our consolidated financial position or results of operations. However, the final outcome of this matter is inherently uncertain, and should the outcome be adverse to us, we may be required to pay damages and other expenses and may be subjected to injunctive relief. The litigation, even if resolved in our favor, may also result in diversion of management attention and significant legal fees.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) We held our Annual Meeting of Stockholders on August 16, 2002.

(b) Steve Sanghi, Albert J. Hugo-Martinez, L.B. Day, Matthew W. Chapman and Wade F. Meyercord were elected as directors at the Annual Meeting.

(c) The results of the vote on the matters voted upon at the Annual Meeting were as follows:
(1) Election of Directors:

<table>
<thead>
<tr>
<th>Director</th>
<th>For</th>
<th>Withheld/Abstain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Sanghi</td>
<td>120,263,265</td>
<td>62,628,085</td>
</tr>
<tr>
<td>Albert J. Hugo-Martinez</td>
<td>181,163,470</td>
<td>1,727,880</td>
</tr>
<tr>
<td>L.B. Day</td>
<td>182,182,726</td>
<td>708,624</td>
</tr>
<tr>
<td>Matthew W. Chapman</td>
<td>179,031,601</td>
<td>3,859,749</td>
</tr>
<tr>
<td>Wade F. Meyercord</td>
<td>102,271,781</td>
<td>80,619,569</td>
</tr>
</tbody>
</table>

(2) Approval of an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock:

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Withheld/Abstain</th>
<th>Broker Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>180,132,531</td>
<td>2,569,962</td>
<td>188,857</td>
<td>-0-</td>
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</tbody>
</table>

(3) Approval of an amendment to our 2001 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the Plan:

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Withheld/Abstain</th>
<th>Broker Non-Votes</th>
</tr>
</thead>
<tbody>
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<td></td>
<td>178,874,878</td>
<td>3,762,287</td>
<td>254,185</td>
<td>-0-</td>
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</tbody>
</table>

(4) Approval of an amendment to the 1993 Stock Option Plan to increase the number of shares of common stock with respect to which options are automatically granted to non-employee directors following each annual meeting of stockholders, and to increase the number of shares of common stock for which options are automatically granted following a non-employee director’s initial appointment or election to the board of directors:

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<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Withheld/Abstain</th>
<th>Broker Non-Votes</th>
</tr>
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<tr>
<td></td>
<td>105,277,347</td>
<td>77,296,701</td>
<td>317,302</td>
<td>-0-</td>
</tr>
</tbody>
</table>

(5) Approval of an amendment to the 1993 Stock Option Plan to provide for a special one-time option grant to each non-employee director:

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Withheld/Abstain</th>
<th>Broker Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
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<td>78,478,872</td>
<td>492,868</td>
<td>-0-</td>
</tr>
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</table>

(6) Ratification of appointment of Ernst & Young LLP as the Company’s independent auditors for the fiscal year ending March 31, 2003:

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Withheld/Abstain</th>
<th>Broker Non-Votes</th>
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<td>176,921,053</td>
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</table>

The foregoing matters are described in more detail in our definitive proxy statement dated July 12, 2002 relating to the Annual Meeting.
Item 6.  EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit 3.1  Restated Certificate of Incorporation of Microchip Technology Incorporated.

Exhibit 3.2  By-Laws of Microchip Technology Incorporated as amended through August 16, 2002.

Exhibit 10.1  1993 Stock Option Plan, as amended through August 16, 2002.


(b) Reports on Form 8-K.

We filed a current report on Form 8-K dated July 17, 2002 to report the signing of a definitive agreement to acquire a semiconductor manufacturing facility in Gresham, Oregon from Fujitsu Microelectronics, Inc. The Purchase and Sale Agreement between Fujitsu and us, dated as of July 17, 2002, was filed as Exhibit 2.1 to the current report on Form 8-K.

We filed a current report on Form 8-K dated August 23, 2002 to report the closing of our acquisition of a semiconductor manufacturing facility in Gresham, Oregon from Fujitsu Microelectronics, Inc. The acquisition was pursuant to the Purchase and Sale Agreement between Fujitsu and us, dated as of July 17, 2002, which was filed as Exhibit 2.1 to our current report on Form 8-K dated July 17, 2002.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROCHIP TECHNOLOGY INCORPORATED

Date: November 12, 2002

By: /s/ Gordon W. Parnell

Gordon W. Parnell
Vice President and Chief Financial Officer
(Duly Authorized Officer, and
Principal Financial and Accounting Officer)
CERTIFICATION

I, Steve Sanghi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microchip Technology Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Steve Sanghi
Steve Sanghi
President and CEO
CERTIFICATION

I, Gordon W. Parnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microchip Technology Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Gordon Parnell

Gordon W. Parnell

Vice President and CFO
RESTATED CERTIFICATE
OF INCORPORATION
OF MICROCHIP TECHNOLOGY INCORPORATED,
a Delaware Corporation

Microchip Technology Incorporated (the “Corporation”), a corporation organized and existing under the General Corporation Law of the State of Delaware (the “DGCL”) does hereby certify as follows:

1. The present name of the Corporation is Microchip Technology Incorporated. The Corporation was originally incorporated under the name Microchip Acquisition Corporation. The original Certificate of Incorporation of the Corporation was filed with the Secretary of the State of Delaware on February 14, 1989.

2. This Restated Certificate of Incorporation of the Corporation, which only restates and integrates and does not further amend the provisions of the Corporation’s certificate of incorporation, as heretofore amended, was duly adopted in accordance with the provisions of Section 245 of the DGCL.

3. The Certificate of Incorporation of said Corporation shall be restated to read in full as follows:

   ARTICLE I

   The name of this corporation is Microchip Technology Incorporated.

   ARTICLE II

   The address of the registered office of this corporation in the State of Delaware is Corporation Trust Center, 209 Orange Street, City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

   ARTICLE III

   The nature of the business or purposes of this corporation to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

   ARTICLE IV

   (A) Classes of Stock. This corporation is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the corporation is authorized to issue is four hundred and fifty-five million (455,000,000) shares. Four hundred and fifty million (450,000,000) shares shall be Common Stock, par value $0.001 per share, and five million (5,000,000) shares shall be Preferred Stock, par value $0.001 per share.
(B) Rights, Preferences and Restrictions of Preferred Stock. The Preferred Stock authorized by this Restated Certificate of Incorporation may be issued from time to time in series. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon any series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or of any of them. Subject to compliance with applicable protective voting rights which have been or may be granted to the Preferred Stock or any series thereof in Certificates of Designation or the corporation’s Certificate of Incorporation, as amended from time to time (“Protective Provisions”), but notwithstanding any other rights of the Preferred Stock or any series thereof, the rights, privileges, preferences and restrictions of any such additional series may be subordinated to, pari passu with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or senior to any of those of any present or future class or series of Preferred or Common Stock. Subject to compliance with applicable Protective Provisions, the Board of Directors is also authorized to increase or decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(C) Common Stock.

1. Dividend Rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

2. Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation, after distribution in full of preferential amounts to be distributed to holders of shares of Preferred Stock, the holders of shares of the Common Stock shall be entitled to receive all of the remaining assets of the corporation available for distribution to its stockholders, ratably in proportion to the number of shares of the Common Stock held by them.


4. Voting Rights. The holder of each share of Common Stock shall have the right to one vote, and shall be entitled to notice of any stockholders’ meeting in accordance with the By-laws of this corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

On September 21, 1999, the Board of Directors adopted a resolution amending the rights, preferences and privileges of the series of 650,000 shares of Preferred Stock designated as Series A Participating Preferred Stock. Such rights, preferences and privileges are set forth in the Amended Certificate of Designations of Rights, Preferences and Privileges of Series A Participating Preferred Stock attached hereto as Exhibit A.
ARTICLE V

Except as otherwise provided in this Restated Certificate of Incorporation, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the corporation.

ARTICLE VI

The number of directors of the corporation shall be fixed from time to time by a bylaw or amendment thereof duly adopted by the Board of Directors or by the stockholders.

ARTICLE VII

Elections of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

ARTICLE VIII

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the corporation.

ARTICLE IX

A director of this corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director’s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize, with the approval of the corporation’s stockholders, further reductions in the liability of the corporation’s directors for breach of fiduciary duty, then a director of the corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended. Any repeal or modification of the foregoing provisions of this Article IX by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLE X

Except as provided herein, the corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.
IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be duly executed on August __, 2002.

MICROCHIP TECHNOLOGY INCORPORATED

By

Name: Steve Sanghi
Office: President
EXHIBIT A

AMENDED
CERTIFICATE OF DESIGNATIONS OF RIGHTS, PREFERENCES AND PRIVILEGES OF SERIES A PARTICIPATING PREFERRED STOCK OF MICROCHIP TECHNOLOGY INCORPORATED
(No shares of the class or series of stock have been issued.)

The undersigned, Steve Sanghi and C. Philip Chapman do hereby certify:

1. That they are the duly elected and acting President and Secretary, respectively, of Microchip Technology Incorporated, a Delaware corporation (the "Corporation").

2. That the Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Microchip Technology Incorporated was originally filed with the Secretary of the State of Delaware on February 13, 1995 and is now being amended and restated in the following form.

3. That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on September 21, 1999 adopted the following resolution amending the rights, preferences, and privileges of the series of 650,000 shares of Preferred Stock designated as Series A Participating Preferred Stock:

"RESOLVED, that pursuant to the authority vested in the Board of Directors of the corporation by the Restated Certificate of Incorporation, the Board of Directors does hereby amend and restate the designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions of the Series A Participating Preferred Stock as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Participating Preferred Stock." The Series A Participating Preferred Stock shall have a par value of $0.001 per share, and the number of shares constituting such series shall be 650,000.

Section 2. Proportional Adjustment. In the event the Corporation shall at any time after the issuance of any share or shares of Series A Participating Preferred Stock (i) declare any dividend on Common Stock of the Corporation ("Common Stock") payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series A Participating Preferred Stock.
Section 3. **Dividends and Distributions.**

(a) Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Participating Preferred Stock with respect to dividends, the holders of shares of Series A Participating Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Participating Preferred Stock.

(b) The Corporation shall declare a dividend or distribution on the Series A Participating Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(c) Dividends shall begin to accrue on outstanding shares of Series A Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 4. **Voting Rights.** The holders of shares of Series A Participating Preferred Stock shall have the following voting rights:
(a) Each share of Series A Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) Except as required by law, holders of Series A Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 5. Certain Restrictions.

(a) The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of Common Stock after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock unless concurrently therewith it shall declare a dividend on the Series A Participating Preferred Stock as required by Section 3 hereof.

(b) Whenever quarterly dividends or other dividends or distributions payable on the Series A Participating Preferred Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock;

(ii) declare or pay dividends on, make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with Series A Participating Preferred Stock, except dividends paid ratably on the Series A Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Participating Preferred Stock;
(iv) purchase or otherwise acquire for consideration any shares of Series A Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(c) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 5, purchase or otherwise acquire such shares at such time and in such manner.

Section 6. Reacquired Shares. Any shares of Series A Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein and, in the Restated Certificate of Incorporation, as then amended.

Section 7. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A Participating Preferred Stock shall be entitled to receive an aggregate amount per share equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series A Participating Preferred Stock.

Section 8. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

Section 9. No Redemption. The shares of Series A Participating Preferred Stock shall not be redeemable.

Section 10. Ranking. The Series A Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 11. Amendment. The Restated Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers,
preference or special rights of the Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Participating Preferred Stock, voting separately as a class.

Section 12. Fractional Shares. Series A Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Participating Preferred Stock.

RESOLVED FURTHER, that the President or any Vice President and the Secretary or any Assistant Secretary of this corporation be, and they hereby are, authorized and directed to prepare and file a Certificate of Designation of Rights, Preferences and Privileges in accordance with the foregoing resolution and the provisions of Delaware law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolution."

We further declare under penalty of perjury that the matters set forth in the foregoing Certificate of Designation are true and correct of our own knowledge.

Executed at Chandler, Arizona on October 11, 1999.

Steve Sanghi
Chairman of the Board, President and Chief Executive Officer

C. Philip Chapman
Vice President, Chief Financial Officer and Secretary

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AMENDED AND RESTATED BYLAWS
OF
MICROCHIP TECHNOLOGY INCORPORATED
Amended Through August 16, 2002
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ARTICLE I
CORPORATE OFFICES

1.1 Registered Office. The registered office of the corporation shall be in the City of Dover, County of Kent, State of Delaware. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II
STOCKHOLDERS

2.1 Place of Meetings. Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders’ meetings shall be held at the registered office of the corporation.

2.2 Annual Meeting. The annual meeting of stockholders shall be held, each year, on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 Special Meeting. A special meeting of the stockholders may be called at any time by the board of directors or by the chairman of the board or by one or more stockholders owning in the aggregate not less than fifty percent (50%) of the entire capital stock of the corporation issued and outstanding and entitled vote.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.5 and 2.6, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the
request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 **Advance Notice of Stockholder Nominees and Stockholder Business.**

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the secretary of the corporation must have received timely notice in writing from the stockholder. To be timely, a stockholder’s notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety (90) calendar days before the date on which the corporation first mailed its proxy statement to stockholders in connection with the previous year’s annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the prior year, notice by the stockholder to be timely must be so received not later than the close of business on the later of ninety (90) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. Such written notice to the secretary shall set forth, as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation’s books, of the stockholder proposing such business, (iii) the class and number of shares of stock of the corporation beneficially owned by such stockholder, (iv) any material interest of such stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “1934 Act”), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder’s meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding any provision in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this paragraph (a). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (a), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(b) Only persons who are nominated in accordance with the procedures set forth in this paragraph (b) shall be eligible for election as directors. Nominations of persons for election to
the board of directors of the corporation may be made at a meeting of stockholders by or at the
direction of the board of directors or by any stockholder of the corporation entitled to vote in the
election of directors at the meeting who complies with the notice procedures set forth in this
paragraph (b). Such nominations, other than those made by or at the direction of the board of
directors, shall be made pursuant to timely notice in writing to the secretary of the corporation in
accordance with the provisions of paragraph (a) of this Section 2.4. Such stockholder’s notice shall
set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-
election as a director: (A) the name, age, business address and residence address of such person, (B)
the principal occupation or employment of such person, (C) the class and number of shares of the
corporation which are beneficially owned by such person, (D) a description of all arrangements or
understandings between the stockholder and each nominee and any other person or persons (naming
such person or persons) pursuant to which the nominations are to be made by the stockholder, and
(E) any other information relating to such person that is required to be disclosed in solicitations of
proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A
under the 1934 Act (including without limitation such person’s written consent to being named in
the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such
stockholder giving notice, the information required to be provided pursuant to paragraph (a) of this
Section 2.4. At the request of the board of directors, any person nominated by a stockholder for
election as a director shall furnish to the secretary of the corporation that information required to be
set forth in the stockholder’s notice of nomination which pertains to the nominee. No person shall be
eligible for election as a director of the corporation unless nominated in accordance with the
procedures set forth in this paragraph (b). The chairman of the meeting shall, if the facts warrants,
determine and declare at the meeting that a nomination was not made in accordance with the
procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the
meeting, and the defective nomination shall be disregarded.

2.5 Notice of Stockholders Meetings. All notices of meetings of stockholders shall be in
writing and shall be sent or otherwise given in accordance with Section 2.6 of these bylaws not less
than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder
entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning,
here and hereinafter, as required from time to time by the General Corporation Law of Delaware or
the certificate of incorporation of the corporation). The notice shall specify the place, date, and hour
of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting
is called.

2.6 Manner of Giving Notice; Affidavit of Notice. Written notice of any meeting of
stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed
to the stockholder at his address as it appears on the records of the corporation. An affidavit of the
secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been
given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 Quorum. At any meeting of the stockholders, the holders of a majority, present in
person or by proxy, of all of the shares of the stock entitled to vote at the meeting shall constitute a
quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law. Where a separate vote by a class or classes is required, a majority, present in person or by proxy, of the shares of such class or classes entitled to take action with respect to that vote on that matter shall constitute a quorum. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, those present at such adjourned meeting shall constitute a quorum (but in no event shall a quorum consist of less than one-third of the shares entitled to vote at the meeting), and all matters shall be determined by a majority of the votes cast at such meeting, except as otherwise required by law.

2.8 **Adjourned Meeting; Notice.** When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 **Voting.** The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Each stockholder shall have one (1) vote for every share of stock entitled to vote that is registered in his or her name on the record date for the meeting (as determined in accordance with Section 2.12 of these bylaws), except as otherwise provided herein or required by law.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or provided herein, all other matters shall be determined by a majority of the votes cast affirmatively or negatively.

2.10 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.
2.11 **Stockholder Action by Written Consent Without a Meeting.** Any action required or able to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation at its registered office in Delaware, its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery to the corporation’s registered office shall be made by hand or by certified or registered mail, return receipt requested.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days after the date the earliest dated consent is delivered to the corporation, a written consent or consents signed by holders of a sufficient number of votes to take action are delivered to the corporation in the manner prescribed in the first paragraph of this section.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.12 **Record Date for Stockholder Notice; Voting; Giving Consents.** In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of
change, conversion or exchange of stock or for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall neither precede nor be more than ten (10) days after the date upon which such resolution is adopted by the board of directors. Any stockholder of record seeking to have the stockholders authorize or take action by written consent shall, by written notice to the secretary, request the board of directors to fix a record date. The board of directors shall promptly, but in all events within ten (10) days after the date on which such notice is received, adopt a resolution fixing the record date.

If the board of directors has not fixed a record date within such time, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in the manner prescribed in the first paragraph of Section 2.11 of these bylaws. If the board of directors has not fixed a record date within such time and prior action by the board of directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the board of directors adopts the resolution taking such prior action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy, filed in accordance with the procedure established for the meeting or taking of action in writing, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 2.13 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane
to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the
meeting, either at a place within the city where the meeting is to be held, which place shall be
specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be
held. The list shall also be produced and kept at the time and place of the meeting during the whole
time thereof, and may be inspected by any stockholder who is present. Such list shall presumptively
determine the identity of the stockholders entitled to vote at the meeting and the number of shares
held by each of them.

2.15 **Conduct of Business.** The Board of Directors will appoint a Chairman of the
meeting, and he/she shall be authorized to be the final authority on all matters of procedure at the
meeting. The rules provided below will govern the conduct of the meeting of stockholders and will
be strictly enforced to maintain an orderly meeting. Robert’s Rules of Order will not be applicable
and will not be utilized.

(i) **Method of Obtaining the Floor.** Stockholders who desire to address
the meeting must raise their hands and wait to be recognized by the Chairman. Only when a
stockholder is recognized as having the floor may he or she address the meeting.

(ii) **Discussion.** Persons addressing the meeting must limit their remarks
to the issue then under consideration by the stockholders and to not more than five minutes in
duration. A stockholder will be permitted to address the meeting on a particular issue not more than
three times.

(iii) **Stockholder Proposals.** Stockholders will only be permitted to address
the meeting on proposals that are included in the proxy statement and proxy relating to that meeting.

2.16 **Inspectors of Election.** The corporation may, and to the extent required by law,
shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the
meeting and make a written report thereof. The corporation may designate one or more persons as
alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to
act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required
by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering
upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of
inspector with strict impartiality and according to the best of his ability. Every vote taken by ballots
shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

2.17 **Inspectors of Election and Procedures for Counting Written Consents.** Within
three (3) business days after receipt of the earliest dated consent delivered to the corporation in the
manner provided in Section 228(c) of the Delaware General Corporation Law or the determination
by the board of directors of the corporation that the corporation should seek corporate action by
written consent, as the case may be, the secretary may engage nationally recognized independent
inspectors of elections for the purpose of performing a ministerial review of the validity of the
Consents and revocations shall be delivered to the inspectors upon receipt by the corporation, the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the corporation (the “Soliciting Stockholders”) or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. As soon as practicable after the earlier of (i) sixty (60) days after the date of the earliest dated consent delivered to the corporation in the manner provided in Section 228(c) of the Delaware General Corporation Law or (ii) a written request therefor by the corporation or the Soliciting Stockholders (whichever is soliciting consents) (which request, except in the case of corporate action by written consent taken pursuant to the solicitations of not more than ten (10) persons, may be made no earlier than after such reasonable amount of time after the commencement date of the applicable solicitation of consents as is necessary to permit the inspectors to commence and organize their count, but in no event less than five (5) days after such commencement date), notice of which request shall be given to the party opposing the solicitation of consents, if any, which request shall state that the corporation or Soliciting Stockholders, as the case may be, have a good faith belief that the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents has been received in accordance with these bylaws, the inspectors shall issue a preliminary report to the corporation and the Soliciting Stockholders stating: (i) the number of valid consents; (ii) the number of valid revocations; (iii) the number of valid and unrevoked consents; (iv) the number of invalid consents; (v) the number of invalid revocations; and (vi) whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the corporation and the Soliciting Stockholders shall agree to a shorter or longer period, the corporation and the Soliciting Stockholders shall have 48 hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within 48 hours after the inspectors’ issuance of the preliminary report, the inspectors shall issue to the corporation and the Soliciting Stockholders their final report containing the information from the inspectors’ determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the corporation or the Soliciting Stockholders issue written notice of an intention to challenge the inspectors’ preliminary report within 48 hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the corporation and the Soliciting Stockholders, which report shall contain the information included in the preliminary report, plus all changes made to the vote totals as a result of the challenge and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents. A copy of the final report of the
inspectors shall be included in the book in which the proceedings of meetings of stockholders are recorded.

2.18 **Election Not To Be Subject to Arizona Control Share Acquisitions Statute.** The corporation elects not to be subject to Title 10, Chapter 23, Article 2 of the Arizona Revised Statutes relating to “Control Share Acquisitions.”

**ARTICLE III**

**DIRECTORS**

3.1 **Powers.** Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 **Number of Directors.** The number of directors of the corporation shall be five (5). This number may be changed by a duly adopted amendment to the certificate of incorporation or by an amendment to this bylaw adopted by resolution of the board of directors or by the stockholders.

No reduction of the authorized number of directors shall have the effect of removing any director before that director’s term of office expires.

3.3 **Election, Qualification and Term of Office of Directors.** Except as provided in Section 3.4 of these bylaws, at each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders’ meeting called and held in accordance with the Delaware General Corporation Law.

Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed.

Nominations for election to the board of directors of the corporation at an annual meeting of stockholders may be made by the board or on behalf of the board by a nominating committee appointed by the board, or by any stockholder of the corporation entitled to vote for the election of directors at such meeting. Such nominations, other than those made by or on behalf of the board, shall be made by notice in writing received by the secretary of the corporation not less than thirty (30) days nor more than sixty (60) days prior to the date of the annual meeting; provided, however, that if less than thirty-five (35) days notice of the meeting is given to stockholders, such nomination shall have been received by the secretary not later than the close of business on the seventh (7th) day following the day on which the notice was mailed. Such notice shall set forth (i) the name and address of the stockholder who intends to make the nomination; (ii) a representation that the
nominating stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and nominate the person or persons specified in the notice; (iii) the number of shares of stock held beneficially and of record by the nominating stockholder; (iv) the name, age, business address and, if known, residence address of each nominee proposed in such notice; (v) the principal occupation or employment of such nominee; (vi) the number of shares of stock of the corporation beneficially owned by each such nominee; (vii) a description of all arrangements or understandings between the nominating stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the nominating stockholder; (viii) any other information concerning the nominee that must be disclosed of nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934; and (ix) the consent of such nominee to serve as a director of the corporation if so elected.

The chairman of the annual meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure. If such determination and declaration is made, the defective nomination shall be disregarded.

3.4 Resignation and Vacancies. Any director may resign at any time upon written notice to the corporation. When one or more directors so resigns and the resignation is effective at a future date, only a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled only by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a
decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 **Place of Meetings; Meetings by Telephone.** The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 **Regular Meetings.** Regular meetings of the board of directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the board of directors and publicized among all directors. A notice of each regular meeting shall not be required.

3.7 **Special Meetings; Notice.** Special meetings of the board of directors for any purpose or purposes may be called at any time by the president or secretary of the corporation, or by any two of the directors then in office and shall be held at a place, on a date and at a time as such officer or such directors shall fix. Notice of the place, date and time of special meetings, unless waived, shall be given to each director by mailing written notice not less than two (2) days before the meeting or by sending a facsimile transmission of the same not less than two (2) hours before the time of the holding of the meeting. If the circumstances warrant, notice may also be given personally or by telephone not less than two (2) hours before the time of the holding of the meeting. Oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.8 **Quorum.** At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the
board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 **Adjourned Meeting; Notice.** If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.11 **Board Action by Written Consent Without a Meeting.** Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.12 **Fees and Compensation of Directors.** Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance of each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.13 **Loans.**

(a) **No Loans to Directors or Executive Officers.** To the extent provided under the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, the corporation may not, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for the
extension of credit, or renew an extension of credit, in the form of a personal loan, to, or for any
director or executive officer (or equivalent thereof) in contravention of the Sarbanes-Oxley Act of
2002 and regulations promulgated thereunder

(b) Approval of Loans to Officers. Except as set forth in Section 3.13(a) above, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or
other employee of the corporation or of its subsidiaries, whenever, in the judgment of the directors,
such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan,
guaranty or other assistance may be with or without interest and may be unsecured, or secured in
such manner as the board of directors shall approve, including, without limitation, a pledge of shares
of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or
restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.14 Removal of Directors. Unless otherwise restricted by statute, by the certificate of
incorporation or by these bylaws, any director or the entire board of directors may be removed, with
or without cause, by the holders of a majority of the shares then entitled to vote at an election of
directors.

No reduction of the authorized number of directors shall have the effect of removing any
director prior to the expiration of such director’s term of office.

3.15 Conduct of Business. At any meeting of the board of directors, business shall be
transacted in such order and manner as the board may from time to time determine, and all matters
shall be determined by the vote of a majority of the directors present, except as otherwise provided
herein or required by law.

3.16 Presumption of Assent. A director of the corporation who is present at a meeting of
the board of directors at which action on any corporate matter is taken shall be conclusively
presumed to have assented to the action taken unless his dissent shall be entered in the minutes of
the meeting or unless he shall file his written dissent to such action with the person acting as the
secretary of the meeting before the adjournment thereof or shall forward such dissent by registered
mail to the secretary of the corporation immediately after the adjournment of the meeting. Such
right to dissent shall not apply to a director who voted in favor of such action.

ARTICLE IV
COMMITTEES

4.1 Committees of Directors. The board of directors may, by resolution passed by a
majority of the whole board, designate one or more committees, with each committee to consist of
one or more of the directors of the corporation. The board may designate one or more directors as
alternate members of any committee, who may replace any absent or disqualified member at any
meeting of the committee. In the absence or disqualification of a member of a committee the
member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), (ii) adopt an agreement of merger or consolidation under Section 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation’s property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, a supplemental resolution of the board of directors, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 Meetings and Action of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment and notice of adjournment), and Section 3.11 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolutions of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.
ARTICLE V
OFFICERS

5.1 Officers. The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, a controller, one or more assistant controllers, a treasurer, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 Appointment of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or 5.5 of these bylaws, shall be appointed by the board of directors.

5.3 Subordinate Officers. The board of directors may appoint, or empower the president to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 Removal and Resignation of Officers. Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective.

5.5 Vacancies in Offices. Any vacancy occurring in any office of the corporation shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 Chairman of the Board. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 President. Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have
general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 **Vice Presidents.** In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 **Secretary.** The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors’ meetings or committee meetings, the number of shares present or represented at stockholders’ meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation’s transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 **Chief Financial Officer.** The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render
to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws. The duties of the chief financial officer may be allocated by the board of directors among one or more persons, in its discretion.

5.11 **Treasurer.** The treasurer shall have such powers and discharge such duties relating to the financial aspects of the corporation’s business as may be prescribed by the board of directors or the chief financial officer.

5.12 **Assistant Secretary.** The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.13 **Assistant Treasurer.** The assistant treasurer, or, if there is more than one, the assistant treasurers in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.14 **Authority and Duties of Officers.** In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders.

5.15 **Representation of Shares of Other Corporations.** The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.
ARTICLE VI
INDEMNITY

6.1 Indemnification of Directors and Officers. The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and executive officers against expenses (including attorneys’ fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a “director” or “executive officer” of the corporation includes any person (i) who is or was a director or executive officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or executive officer of another corporation partnership, joint venture, trust or other enterprise, or (iii) who was a director or executive officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 Indemnification of Others. The corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and executive officers) against expenses (including attorney’s fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an “employee” or “agent” of the corporation (other than a director or executive officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII
RECORDS AND REPORTS

7.1 Maintenance and Inspection of Records. The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.
7.2 **Inspection by Directors.** Any director shall have the right to examine the corporation’s stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

**ARTICLE VIII**
**GENERAL MATTERS**

8.1 **Checks.** From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 **Execution of Corporate Contracts and Instruments.** The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 **Stock Certificates; Partly Paid.** The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.
The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 **Special Designation on Certificates.** If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 **Lost Certificates.** Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 **Construction; Definitions.** Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

8.7 **Dividends.** The directors of the corporation, subject to any restrictions contained in (i) the General Corporation Law of Delaware or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation’s capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such
reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 **Fiscal Year.** The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 **Seal.** The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.10 **Transfer of Stock.** Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 **Stock Transfer Agreements.** The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 **Registered Stockholders.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

8.13 **Notices.** Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery, by mail, postage paid, or by facsimile transmission. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his last known address as it appears on the books of the corporation. The time when such notice shall be deemed received, if hand delivered, or dispatched, if sent by mail or facsimile, transmission, shall be the time of the giving of the notice.
ARTICLE IX
AMENDMENTS

Any of these bylaws may be altered, amended or repealed by the affirmative vote of a majority of the board of directors or, with respect to bylaw amendments placed before the stockholders for approval and except as otherwise provided herein or required by law, by the affirmative vote of the holders of a majority of the shares of the corporation’s stock entitled to vote in the election of directors, voting as one class.
CERTIFICATE OF ADOPTION OF AMENDMENT TO AMENDED AND
RESTATED BYLAWS

OF

MICROCHIP TECHNOLOGY INCORPORATED

The undersigned hereby certifies that she is a duly appointed, qualified, and acting Secretary of
Microchip Technology Incorporated and that the foregoing Amended and Restated Bylaws, as
amended, comprising 22 pages, were adopted as the Bylaws of the corporation on August 16, 2002
by the Board of Directors of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal
this 16th day of August, 2002.

/s/ Mary K. Simmons
Mary K. Simmons
Secretary
1.1 PURPOSE OF THE PLAN

(a) Amendment. On January 19, 1993, the Board of Directors (the "Board") of Microchip Technology Incorporated, a Delaware corporation (the "Corporation") adopted the 1993 Stock Option/Stock Issuance Plan. On April 23, 1993 and September 14, 1993, the Board amended the Plan authorizing additional available shares of Common Stock. On October 7, 1993, the Board amended and restated the Plan as stated herein. On April 18, 1994, the Board amended the Plan authorizing additional available shares of Common Stock, subject to stockholder approval. On January 20, and April 26, 1995, the Board amended the Plan authorizing, among other matters, additional available shares of Common Stock, subject to stockholder approval and the elimination of the stock issuance portion of the Plan. Any options outstanding under the Plan before this amendment shall remain valid and unchanged. On April 25, 1997, the Board amended the Plan authorizing, among other matters, additional available shares of Common Stock, subject to stockholder approval. On August 18, 2000 the stockholders approved an amendment to the Plan (which was adopted by the Board on May 5, 2000) to extend its term as set forth in Section 5.3(d) hereof. The Board also amended the Plan to provide that, following the approval by the stockholders of the extension of the term of the Plan, Incentive Options could no longer be granted (see Section 2.2(e)). On October 26, 2001, the Board amended the Plan to permit the payment of the option exercise price by delivering shares of Common Stock. On February 11, 2002, the Board amended the Plan to provide that options granted on or after April 1, 2002 would vest in their entirety upon an Optionee’s death if the Optionee dies while in Service to the Company. On May 6, 2002, the Board amended the Plan to update it to reflect regulatory changes. On August 16, 2002, the stockholders approved amendments to the Plan that had been approved by the Board on May 6, 2002, to increase automatic grants under Article IV and to provide for a special one-time option grant to non-employee directors.

(b) Purpose. This 1993 Stock Option Plan, amended through August 16, 2002 ("Plan"), is intended to promote the interests of the Corporation by providing (i) key employees (including officers) of the Corporation (or its parent or subsidiary corporations) who are responsible for the management, growth and financial success of the Corporation (or its parent or subsidiary corporations), (ii) non-employee members of the Corporation's Board of Directors (the "Board") and (ii) consultants and other independent contractors who provide valuable services to the Corporation (or its parent or subsidiary corporations) the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the corporation as an incentive for them to remain in the service of the Corporation (or its parent or subsidiary corporations).
(c) **Effective Date.** The Plan became effective on the first date on which the shares of the Corporation's common stock were registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "1934 Act"). Such date is hereby designated as the Effective Date of the Plan. The effective date of any amendments to the Plan shall be as of the date of Board approval or such other subsequent date as is specified by the Board. Notwithstanding the foregoing, certain amendments referenced herein must be approved by the stockholders of the Corporation.

(d) **Successor to 1989 Plan.** This Plan shall serve as the successor to the Corporation's 1989 Stock Option Plan (the "1989 Plan"), and no further option grants or stock issuances shall be made under the 1989 Plan from and after the Effective Date of this Plan. All options outstanding under the 1989 Plan on such Effective Date are hereby incorporated into this Plan and shall accordingly be treated as outstanding options under this Plan. However, each outstanding option so incorporated shall continue to be governed solely by the express terms and conditions of the instrument evidencing such grant, and no provision of this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of the Corporation's common stock thereunder. All outstanding unvested share issuances under the 1989 Plan shall continue to be governed solely by the express terms and conditions of the instruments evidencing such issuances, and no provision of this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such unvested shares.

(e) **Parent/Subsidiaries.** For purposes of the Plan, the following provisions shall be applicable in determining the parent and subsidiary corporations of the Corporation:

(i) Any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation shall be considered to be a parent of the corporation, provided each such corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in any other corporation in such chain.

(ii) Each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a subsidiary of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in any other corporation in such chain.

(f) All references herein to number of shares of Common Stock have been restated to reflect a 2-for-1 stock split of the Common Stock effected on September 14, 1993, a 3-for-2 stock split of the Common Stock effected on April 4, 1994, a 3-for-2 split of the Common Stock effected on November 8, 1994, a 3-for-2 split of the Common Stock effected on January 6, 1997, a 3-for-2 split of the Common Stock effected on February 7, 2000, a 3-for-2 split of the Common Stock effected on September 26, 2001 and a 3-for-2 split effected on May 8, 2002.
1.2 STRUCTURE OF THE PLAN

(a) **Stock Programs.** The Plan shall be divided into two separate components: the Discretionary Option Grant Program specified in Article II and the Automatic Option Grant Program specified in Article IV. Under the Discretionary Option Grant Program, eligible individuals may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock in accordance with the provisions of Article II. Under the Automatic Option Grant Program, non-employee members of the Board will be automatically granted options to purchase shares of the Common Stock in accordance with the provisions of Article IV.

(b) **General Provisions.** Unless the context clearly indicates otherwise, the provisions of Articles I and V shall apply to the Discretionary Option Grant Program and the Automatic Stock Grant Program, and shall accordingly govern the interests of all individuals under the Plan.

1.3 ADMINISTRATION OF THE PLAN

(a) **Bifurcation of Administration.** The eligible persons under the Discretionary Option Grant Program shall be divided into two groups and there shall be a separate administrator for each group. One group shall be comprised of eligible persons that are "Affiliates." For purposes of the Plan, the term "Affiliates" shall mean (i) all "executive officers" as that term is defined in Rule 16a-1(f) promulgated under the Securities and Exchange Act of 1934 as amended (the "1934 Act"), and (ii) all directors of the Company. The other group shall be comprised of all eligible persons under the Plan that are not Affiliates ("Non-Affiliates").

(b) **Affiliate Administration.** The power to administer the Discretionary Option Grant Program with respect to eligible persons that are Affiliates shall be vested with a committee (the "Senior Committee") of two (2) or more non-employee Board members appointed by the Board. No Board member shall be eligible to serve on the Senior Committee unless such individual qualifies as both (i) an outside director as defined in Internal Revenue Code Section 162(m) and the regulations promulgated thereunder, and (ii) a non-employee director as defined in Rule 16b-3 promulgated under the 1934 Act.

(c) **Non-Affiliate Administration.** The power to administer the Discretionary Option Grant Program with respect to eligible persons that are not Non-Affiliates shall be vested with the Board. The Board, however, may at any time appoint a committee (the "Employee Committee") of one or more persons who are members of the Board or members of senior management of the Company and delegate to such Employee Committee the power, in whole or in part, to administer the Discretionary Stock Option Grant Program with respect to the Non-Affiliates.

(d) **Term on Committee.** Members of the Senior Committee and the Employee Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board at any time may terminate the
functions of the Employee Committee and reassume all powers and authority previously delegated to such Committee.

(e) Authority of Plan Administrators. The Board, the Employee Committee, and the Senior Committee, whichever is applicable, shall each be referred to herein as a "Plan Administrator." Each Plan Administrator shall have the authority and discretion, with respect to its administered group, to select which eligible persons shall participate in the Plan. Unless otherwise required by law, decisions among members of a Plan Administrator shall be by majority vote. With respect to each administered group, the applicable Plan Administrator shall have full power and authority (subject to the express provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Discretionary Option Grant Program and to make such determinations under, and issue such interpretations of, the provisions of such programs and any outstanding option grants or stock issuances thereunder as it may deem necessary or advisable. All decisions made by a Plan Administrator shall be final and binding on all parties in its administered group who have an interest in the Discretionary Option Grant Program or any outstanding option thereunder. The Plan Administrator shall also have full authority to determine, with respect to the option grants made under the Discretionary Option Program, the number of shares to be covered by each such grant, the time or times at which each granted option is to become exercisable and the maximum term for which the option may remain outstanding.

(f) Indemnification. In addition to such other rights of indemnification as they may have, the members of each Plan Administrator shall be indemnified and held harmless by the Company, to the extent permitted under applicable law, for, from and against all costs and expenses reasonably incurred by them in connection with any action, legal proceeding to which any such member thereof may be a party, by reason of any action taken or failed to be taken, under or in connection with the Plan or any rights granted thereunder, and against all amounts paid by them in settlement thereof or paid by them in satisfaction of a judgment of any such action, suit or proceeding, except a judgment based upon a finding of bad faith.

1.4 ELIGIBLE PERSONS UNDER THE PLAN

(a) Discretionary Option Grant Program. The persons eligible to participate in the Discretionary Option Grant Program under Article II are as follows:

(i) officers and other key employees of the Corporation (or its parent or subsidiary corporations) who render services which contribute to the management, growth and financial success of the Corporation (or its parent or subsidiary corporations);

(ii) non-employee members of the Board (excluding those current members of the Senior Committee); and

(iii) those consultants or other independent contractors who provide valuable services to the Corporation (or its parent or subsidiary corporations).

Notwithstanding Section 1.4(a)(ii) above, all non-employee members of the
Board, including those current members of the Senior Committee, shall be eligible for a one-time grant under the Discretionary Option Grant Program which shall be the grant of an option to acquire 3,000 shares of Common Stock granted as of the date on which the stockholders of the Corporation approve this amendment at the Corporation’s 2002 Annual Stockholders’ Meeting, and the exercise price of which shall be equal to 100% of the fair market value per share of the Common Stock on such date, as determined in accordance with the valuation provisions of Section 2.1(d) hereof, and that shall vest as follows: 1,000 shares shall vest 12 months from the grant date and the remaining 2,000 shares shall vest ratably in 24 monthly installments commencing 12 months from the grant date, subject to continued service on the Board as of such vesting dates.

(b) Automatic Option Grant Program. The persons eligible to participate in the Automatic Option Grant Program shall be limited to non-employee Board members. A non-employee Board member shall not be eligible to participate in the Automatic Option Grant Program, however, if such individual has at any time been in the prior employ of the Corporation (or any parent or subsidiary corporation). Unless otherwise provided in the Plan, persons who are eligible under the Automatic Option Grant Program may also be eligible to receive option grants under the Discretionary Option Grant Program in effect under this Plan.

1.5 STOCK SUBJECT TO THE PLAN

(a) Amendment. Under the Plan, 20,493,766 shares were originally authorized to be issued under the Plan (constituting 18,785,173 authorized shares under the 1989 Plan and rolled over into this Plan plus 1,708,593 additional shares authorized by the Board on January 19, 1993). On April 23, 1993, an additional 7,403,906 shares were authorized by the Board, subject to stockholder approval at the next stockholders' meeting. At that point, the total available authorized shares was 27,897,672. On September 14, 1993, the Board authorized the number of shares of Common Stock issuable under the Plan to be increased by 7,700,062 shares. On April 18, 1994, the Board authorized the number of shares of Common Stock issuable under the Plan to be increased by 9,871,875 shares. On January 20, 1995 and April 25, 1997, the Board authorized the number of shares of Common Stock issuable under the Plan to be increased by 4,809,375 and 6,750,000 shares, respectively, subject to Stockholder approval, such that the maximum number of shares issuable for the term of the Plan shall be as set forth in Section 1.5(b) below.

(b) Available Shares. Shares of the Corporation's common stock (the "Common Stock") shall be available for issuance under the Plan and shall be drawn from either the Corporation's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan shall not exceed 57,028,984 shares, subject to adjustment from time to time in accordance with the provisions of this Section 1.5. To the extent one or more outstanding options under the 1989 Plan which have been incorporated into this Plan (as adjusted for the 1993 Stock Dividend) are

1 All numbers in Sections 1.5(a), 1.5(b) and 1.5(e) are adjusted for stock splits which have occurred through May 2002.
subsequently exercised, the number of shares issued with respect to each such option shall reduce, on a share-for-share basis, the number of shares available for issuance under this Plan.

(c) Adjustments for Issuances. Should one or more outstanding options under this Plan (including outstanding options under the 1989 Plan incorporated into this Plan) expire or terminate for any reason prior to exercise in full, then the shares subject to the portion of each option not so exercised shall be available for subsequent option grant under the Plan. All share issuances under the Plan, whether or not the shares are subsequently repurchased by the Corporation pursuant to its repurchase rights under the Plan, shall reduce on a share-for-share basis the number of shares of Common Stock available for subsequent option grants under the Plan. In addition, should the exercise price of an outstanding option under the Plan (including any option incorporated from the 1989 Plan) be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an outstanding option under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised, and not by the net number of shares of Common Stock actually issued to the option holder.

(d) Adjustments for Organic Changes. Should any change be made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, then appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities and price per share in effect under each option outstanding under either the Discretionary Option Grant Program or the Automatic Option Grant Program and (iii) the number and/or class of securities and price per share in effect under each outstanding option incorporated into this Plan from the 1989 Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Board shall be final, binding and conclusive. The amount of options granted automatically under the Automatic Option Grant Program on the Annual Automatic Grant Date and on the Initial Automatic Grant Date shall not be adjusted regardless of any organic changes made to the Common Stock issuable under the Plan.

(e) Limitations on Grants to Employees. Notwithstanding any other provision herein to the contrary, the following limitations shall apply to grants of options to Employees:

(i) No employee shall be granted, in any fiscal year of the Corporation, options to purchase more than one million five hundred eighteen thousand seven hundred and fifty (1,518,750) shares.

(ii) In connection with his or her initial employment, an Employee may be granted options to purchase up to an additional two million five hundred thirty-one thousand two hundred and fifty (2,531,250) shares which shall not count against the limit set forth in subsection (i) above.
(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Corporation's capitalization as described in Section 1.5(d).

(iv) If an option is cancelled in the same fiscal year of the Corporation in which such option was granted (other than in connection with a transaction described in Section 1.5(d)), the cancelled option will be counted against the limit set forth in Section 1.5(e)(i). For this purpose, if the exercise price of an option is reduced, the transaction will be treated as a cancellation of the option and the grant of a new option.

ARTICLE II
DISCRETIONARY OPTION GRANT PROGRAM

2.1 TERMS AND CONDITIONS OF OPTIONS

(a) General. Options granted to eligible persons ("Optionees") pursuant to the Discretionary Option Grant Program set forth in this Article II shall be authorized by action of the Plan Administrator. Each granted option shall be evidenced by one or more instruments in the form approved by the Plan Administrator; provided, however, that each such instrument shall comply with the terms and conditions specified below.

(b) Option Price. The option price per share of the Common Stock subject to an option hereunder shall in no event be less than one hundred percent (100%) of the fair market value of such Common Stock on the grant date.

(c) Payment of Option Price. The option price shall become immediately due upon exercise of the option and shall be payable in one of the following alternative forms specified below:

   (i) full payment in cash or check made payable to the Corporation’s order; or

   (ii) full payment in shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation’s earnings for financial reporting purposes and valued at fair market value on the Exercise Date (as such term is defined below); or

   (iii) full payment in a combination of shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation’s earnings for financial reporting purposes and valued at fair market value on the Exercise Date and cash or check drawn to the Corporation’s order; or
(iv) full payment through a broker-dealer sale and remittance procedure pursuant to which the Optionee (A) shall provide irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Corporation in connection with such purchase and shall (B) provide written directives to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sales transaction.

For purposes of this Section 2.1(c), the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Corporation. Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the option price for the purchased shares must accompany such notice.

(d) Fair Market Value. If the Common Stock is traded on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or the Nasdaq SmallCap Market, the fair market value shall be the closing price per share on the date in question, as such price is reported in the Wall Street Journal or such other source as the Administrator deems reliable. If there is no reported closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(e) Term and Exercise of Options. Each option granted under this Discretionary Option Grant Program shall be exercisable at such time or times and during such period as is determined by the Plan Administrator and set forth in the instrument evidencing the grant. No such option, however, shall have a maximum term in excess of ten (10) years from the grant date. Except as determined otherwise by the Administrator, during the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable by the Optionee other than by will or by the laws of descent and distribution following the Optionee's death.

(f) Termination of Service. The following provisions shall govern the exercise period applicable to any outstanding options held by the Optionee at the time of cessation of Service or death:

(i) Should an Optionee cease Service for any reason (including permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code but not including death) while holding one or more outstanding options under this Article II, then none of those options shall (except to the extent otherwise provided pursuant to Section 2.1(g) below) remain exercisable for more than a ninety (90) day period (or such shorter or longer period determined by the Plan Administrator and set forth in the instrument evidencing the grant, but not to exceed twelve (12) months) measured from the date of such cessation of Service.
(ii) Any option held by the Optionee under this Article II and exercisable in whole or in part on the date of his or her death may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. With respect to options granted on or after April 1, 2002, all such unvested options shall immediately vest upon Optionee’s death if such Optionee’s death occurs while Optionee is in Service to the Company. Any exercise following Optionee’s death while Optionee is in Service to the Company, however, must occur prior to the earlier of (x) six months following the date of Optionee's death or (y) the specified expiration date of the option term. Upon the occurrence of the earlier event, the option shall terminate and cease to be outstanding.

(iii) Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term.

(iv) During the applicable post-Service exercise period, the option shall not be exercisable for more than the number of shares (if any) in which the Optionee is vested at the time of his or her cessation of Service (less any option shares subsequently purchased by the Optionee prior to death). Upon the expiration of the limited post-Service exercise period or (if earlier) upon the specified expiration date of the option term, each such option shall terminate and cease to be outstanding with respect to any vested shares for which the option has not otherwise been exercised. However, each outstanding option shall immediately terminate and cease to be outstanding, at the time of the Optionee's cessation of Service, with respect to any shares for which the option is not otherwise at that time exercisable or in which the Optionee is not otherwise at that time vested.

(v) Should (A) the Optionee's service be terminated for misconduct (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement) or (B) the Optionee make any unauthorized use or disclosure of confidential information or trade secrets of the Corporation or its parent or subsidiary corporations, then in any such event all outstanding options held by the Optionee under this Article II shall terminate immediately and cease to be outstanding.

(g) Discretion to Accelerate Vesting. The Plan Administrator shall have complete discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to permit one or more options held by the Optionee under this Article II to be exercised, during the limited post-Service exercise period applicable under Section 2.1(f) above, not only with respect to the number of vested shares of Common Stock for which each such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more subsequent installments of vested shares for which the option would otherwise have become exercisable had such cessation of Service not occurred.

(h) Discretion to Extend Exercise Period. The Plan Administrator shall also have full power and authority to extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service or death from the limited period in effect under Section 2.1(f) above to such greater period of time as the Plan Administrator shall
deem appropriate. In no event, however, shall such option be exercisable after the specified expiration date of the option term.

(i) Definitions. For purposes of the foregoing provisions of this Section 2.1 (and for all other purposes under the Discretionary Option Grant Program):

(i) The Optionee shall (except to the extent otherwise specifically provided in the applicable stock option agreement) be deemed to remain in Service for so long as such individual renders services on a periodic basis to the Corporation (or any parent or subsidiary corporation) in the capacity of an Employee, a non-employee member of the Board or an independent consultant or advisor.

(ii) The Optionee shall be considered to be an Employee for so long as he or she remains in the employment of the Corporation or one or more parent or subsidiary corporations, subject to the control and direction of the employer entity not only as to the work to be performed but also as to the manner and method of performance.

(j) Stockholder Rights. An Optionee shall have no stockholder rights with respect to any shares covered by the option until such individual shall have exercised the option and paid the option price for the purchased shares.

2.2 INCENTIVE OPTIONS

From and after August 18, 2000, no incentive stock options, as defined in Section 422 of the Internal Revenue Code, shall be granted under the Plan.

2.3 CORPORATE TRANSACTIONS

(a) Definition. For purposes of this Plan, any of the following stockholder approved transactions to which the Corporation is a party shall be considered a "Corporate Transaction":

(i) a merger or consolidation in which the corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Corporation is incorporated,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation in complete liquidation or dissolution of the Corporation, or

(iii) any reverse merger in which the Corporation is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to person or persons different from those who held such securities immediately prior to such merger.

(b) Acceleration of Option. Upon the stockholder approval of a Corporate Transaction, each option which is at the time outstanding under this Article II shall automatically
accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares. However, an outstanding option under this Article II shall not so accelerate if and to the extent: (A) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation or parent thereof or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof, (B) such option is to be replaced with a cash incentive program of the successor corporation which preserves the option spread existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such option, or (C) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. The determination of option comparability under clause (A) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

(c) Termination of Options. Upon the consummation of the Corporate Transaction, all outstanding options under this Article II shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

(d) Adjustments on Assumption or Continuation. Each outstanding option under this Article II which is assumed in connection with the Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued to the option holder, in consummation of such Corporate Transaction, had such person exercised the option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price payable for such securities shall remain the same. In addition, the class and number of securities available for issuance under the Plan following the consummation of the Corporate Transaction shall be appropriately adjusted.

(e) Discretion to Accelerate. The Plan Administrator shall have the discretion, exercisable either in advance of any actually-anticipated Corporate Transaction or at the time of an actual Corporate Transaction, to provide (upon such terms as it may deem appropriate) for the automatic acceleration of one or more outstanding options granted under the Plan which are assumed or replaced in the Corporate Transaction and do not otherwise accelerate at that time, in the event the Optionee's Service should subsequently terminate within a designated period following the effective date of such Corporate Transaction.

(f) Plan Not to Affect Corporation. The grant of options under this Article II shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.
2.4 CHANGE IN CONTROL

(a) Definition. For purposes of this Plan, a Change in Control shall be deemed to occur in the event:

(i) any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept; or

(ii) there is a change in the composition of the Board over a period of twenty-four (24) consecutive months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (a) have been Board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board.

(b) Discretion to Accelerate. The Plan Administrator shall have the discretionary authority, exercisable either in advance of any actually anticipated Change in Control or at the time of an actual Change in Control, to provide for the automatic acceleration of one or more outstanding options under this Article II (and the termination of one or more of the Corporation's outstanding repurchase rights under this Article II) upon the occurrence of the Change in Control. The Plan Administrator shall also have full power and authority to condition any such option acceleration (and the termination of any outstanding repurchase rights) upon the subsequent termination of the Optionee's Service within a specified period following the Change in Control.

(c) Exercise Rights. Any options accelerated in connection with the Change in Control shall remain fully exercisable until the expiration or sooner termination of the option term.

2.5 INCENTIVE OPTIONS

The exercisability as Incentive Options of any options accelerated under Sections 2.3 or 2.4 hereof in connection with a Corporate Transaction or Change in Control shall remain subject to the dollar limitation of Section 422(d) of the Internal Revenue Code.
ARTICLE III
RESERVED

ARTICLE IV
AUTOMATIC OPTION GRANT PROGRAM

4.1 TERMS AND CONDITIONS OF AUTOMATIC OPTION GRANTS

(a) Amount and Date of Grant. During the term of this Plan, automatic option grants (the "Automatic Option Grant") shall be made to each eligible non-employee member of the Board ("Optionee") as follows:

(i) Each year on the Annual Automatic Grant Date an option to acquire 6,000 shares of Common Stock ("Option Shares") shall be granted to each eligible non-employee member of the Board for so long as there are shares of Common Stock available under Section 1.5 hereof. The "Annual Automatic Grant Date" shall be as of the first business day of the month in which the Corporation's Annual Stockholders Meeting is held. Notwithstanding the foregoing, (1) any non-Employee Member of the Board whose term ended as of such Automatic Grant Date shall not be eligible to receive any automatic option grants on that Annual Automatic Grant Date and (2) any non-Employee Member of the Board who has received an Automatic Grant pursuant to Section 4.1(a)(ii) on the same date as the Annual Automatic Grant Date or within 30 days prior thereto, shall not be eligible to receive an Automatic Option Grant on that Annual Automatic Grant Date.

(ii) On the Initial Automatic Grant Date, every new member of the Board who is an eligible non-Employee and has not previously been a member of the Board shall be granted an option to acquire 12,000 shares of Common Stock ("Option Shares") as long as there are shares of Common Stock available under Section 1.5 hereof. The "Initial Automatic Grant Date" shall be as of the date that the Optionee was first appointed or elected to the Board.

(b) Exercise Price. The exercise price per share of Common Stock subject to each automatic option grant made under this Article IV shall be equal to 100% of the fair market value per share of the Common Stock on the applicable Automatic Grant Date, as determined in accordance with the valuation provisions of Section 2.1(d) hereof.

(c) Method of Exercise. In order to exercise an option with respect to any Option Shares for which an Automatic Option Grant is exercisable at the time, Optionee (or in the case of an exercise after Optionee's death, Optionee's executor, administrator, heir or legatee, as the case may be) must take the following action:
(i) execute and deliver to the Secretary of the Company a written notice of exercise;

(ii) pay the aggregate Option Price in one of the alternate forms as set forth in Section 4.1(d) below; and

(iii) furnish appropriate documentation that the person or persons exercising the option (if other than the Optionee) has the right to exercise such option. As soon after the Exercise Date (as defined in Section 4.1(e) hereof), as practical, the Company shall mail or deliver to or on behalf of the Optionee (or any other person or persons exercising this option in accordance herewith) a certificate or certificates representing the shares for which the option has been exercised in accordance with the provisions of this Plan. In no event may any option be exercised for any fractional shares.

(d) Payment Price. The exercise price shall be payable in one of the alternative forms specified below:

(i) full payment in cash or check made payable to the Corporation’s order; or

(ii) full payment in shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation’s earnings for financial reporting purposes and valued at fair market value on the Exercise Date (as such term is defined below); or

(iii) full payment in a combination of shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation’s earnings for financial reporting purposes and valued at fair market value on the Exercise Date and cash or check drawn to the Corporation’s order; or

(iv) full payment through a sale and remittance procedure pursuant to which the non-employee Board member (A) shall provide irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares and shall (B) concurrently provide written directives to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sales transaction.

For purposes of this Section 4.1.(d), the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Corporation. Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the exercise price for the purchased shares must accompany such notice.

(e) Exercise Date. For purposes of this Article IV, the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Corporation, and the fair market value per share of Common Stock on any relevant date under this Article IV shall be determined in accordance with the provisions of Section 2.1(d) hereof. Except to the extent the
sale and remittance procedure specified above is utilized for the exercise of the option, payment of the option price for the purchased shares must accompany the exercise notice.

(f) **Term of Option.** Each Automatic Option Grant under this Article IV shall have a maximum term of ten (10) years measured from the Automatic Grant Date. Should Optionee's service as a Board member cease for any reason while an option remains outstanding and unexercised, then the option term shall immediately terminate and the option shall cease to be outstanding prior to the Expiration Date in accordance with the following provisions:

(i) The option shall immediately terminate and cease to be outstanding for any shares of Common Stock for which the option was not otherwise exercisable at the time of Optionee's cessation of Board service.

(ii) Should Optionee cease, for any reason other than death, to serve as a member of the Board, then Optionee shall have a six-month period measured from the date of such cessation of Board service in which to exercise the options which vested prior to the time of such cessation of Board service. In no event, however, may any option be exercised after the Expiration Date of such option.

(iii) With respect to options granted on or after April 1, 2002, all such unvested options shall immediately vest upon the Optionee’s death if said Optionee’s death occurs during Optionee’s Board service. Should Optionee die while serving as a Board member or within six months after cessation of Board service, then the personal representative of the Optionee's estate (or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution) shall have the right to exercise any option for any or all of the shares of Common Stock for which the option is, in accordance with the provisions of this Plan, exercisable at the time of the Optionee's cessation of Board service, less any shares subsequently purchased by the Optionee pursuant to the option prior to death. Such right shall cease to be exercisable and the option shall accordingly terminate with respect to all Common Stock available under such option by the earlier of (A) the expiration of the twelve-month period measured from the date of Optionee's death or (B) the Expiration Date.

(g) **Vesting.** Each Automatic Option Grant made pursuant to Section 4.1(a)(i) shall become exercisable and vest in a series of twelve (12) equal and successive monthly installments, with the first such installment to become exercisable one month after the Annual Automatic Grant Date. Each Automatic Option Grant made pursuant to Section 4.1(a)(ii) shall become exercisable and vest in a series of 36 equal and successive monthly installments, with the first such installment to become exercisable one month after the Initial Automatic Grant Date. Each installment of an option shall only vest and become exercisable if the Optionee has not ceased serving as a Board member as of such installment date.

(h) **Limited Transferability.** Except as otherwise determined by the Administrator, each Automatic Option Grant shall be exercisable only by Optionee during Optionee's lifetime and shall be neither transferable nor assignable, other than by will or by the laws of descent and distribution following Optionee's death.
4.2 CORPORATE TRANSACTION

In the event of stockholder approval of a Corporate Transaction (as that term is defined in Section 2.3(a)), then all options granted pursuant to this Article IV (to the extent outstanding at such time, but not otherwise fully exercisable and vested) shall automatically accelerate and immediately vest so that the option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to the option and may thereafter be exercised for any or all such Option Shares. Upon the consummation of the Corporate Transaction, the option shall, to the extent not previously exercised, terminate and cease to be outstanding.

4.3 CHANGE IN CONTROL

All options granted pursuant to an Automatic Option Agreement under this Article IV (to the extent outstanding, but not otherwise fully exercisable and vested) shall automatically accelerate in connection with a Change in Control (as that term is defined in Section 2.4(a)), so that such option shall, immediately prior to the effective date of such Change in Control, become fully exercisable for all of the Option Shares at the time subject to that option and may be exercised for any or all of such Option Shares. The option shall remain so exercisable until such option has terminated in accordance with Section 4.1(d) hereof.

4.4 MISCELLANEOUS PROVISIONS

(a) Corporation Rights. The Automatic Option Grants shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

(b) Privilege of Stock Ownership. An Optionee shall not have any of the rights of a stockholder with respect to Option Shares until such individual shall have exercised the option and paid the option price for the Option Shares.
ARTICLE V
MISCELLANEOUS

5.1 AMENDMENT OF THE PLAN AND AWARDS

(a) Board Authority. The Board has complete and exclusive power and authority to amend or modify the Plan (or any component thereof) in any or all respects whatsoever. However, no such amendment or modification shall, without the consent of the Corporation's stockholders, disqualify any option previously granted under the Plan for treatment as an Incentive Option, or adversely affect rights and obligations with respect to options at the time outstanding under the Plan, unless the Optionee or Participant consents to such amendment. In addition, the Board may not, without the approval of the Corporation's stockholders, amend the Plan to (i) materially increase the maximum number of shares issuable under the Plan, except for permissible adjustments under Section 1.5(d) or extend the term of the Plan, (ii) materially modify the eligibility requirements for plan participation or (iii) materially increase the benefits accruing to plan participants.

(b) Options Issued Prior to Stockholder Approval. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant Program and the Automatic Option Grant Program prior to any required stockholder approvals, provided, any shares actually issued under the Plan are held in escrow until stockholder approval is obtained. If such stockholder approval is not obtained within twelve (12) months of the meeting of the Board approving the Plan or any amendments, then (i) any unexercised options shall terminate and cease to be exercisable and (ii) the Corporation shall promptly refund the purchase price paid for any excess shares actually issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow.

(c) Rule 16b-3 Plan. With respect to persons subject to Section 16 of the 1934 Act, the Plan is intended to comply with all applicable conditions of Rule 16b-3 (and all subsequent revisions thereof) promulgated under the 1934 Act. To the extent any revision of the Plan or action by any Plan Administrator fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by such Plan Administrator. In addition, the Board may amend the Plan from time to time as it deems necessary in order to meet the requirements of any amendments to Rule 16b-3 without the consent of the shareholders of the Company.

5.2 TAX WITHHOLDING

(a) General. The Corporation's obligation to deliver shares of Common Stock upon the exercise of stock options for such shares or the vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, State and local income tax and employment tax withholding requirements.

(b) Shares to Pay for Withholding. A Plan Administrator may, in its discretion and in accordance with the provisions of this Section 5.2(b) and such supplemental
rules as the Plan Administrator may from time to time adopt (including the applicable safe-
harbor provisions of SEC Rule 16b-3), provide any or all holders of non-statutory options or
unvested shares under the Plan with the right to use shares of the Corporation's Common Stock
in satisfaction of all or part of the Federal, State and local income tax and employment tax
liabilities incurred by such holders in connection with the exercise of their options or the vesting
of their shares (the "Taxes"). Such right may be provided to any such holder in either or both of
the following formats:

(i) **Stock Withholding.** The holder of the non-statutory option or
unvested shares may be provided with the election to have the Corporation withhold, from the
shares of Common Stock otherwise issuable upon the exercise of such non-statutory option or
the vesting of such shares, a portion of those shares with an aggregate fair market value equal to
the percentage of the applicable Taxes (not to exceed one hundred percent (100%)) designated
by the holder.

(ii) **Stock Delivery.** The Plan Administrator may, in its discretion,
provide the holder of the non-statutory option or the unvested shares with the election to deliver
to the Corporation, at the time the non-statutory option is exercised or the shares vest, one or
more shares of Common Stock previously acquired by such individual (other than pursuant to
the transaction triggering the Taxes) with an aggregate fair market value equal to the percentage
of the taxes incurred in connection with such option exercise or share vesting (not to exceed one
hundred percent (100%)) designated by the holder.

### 5.3 EFFECTIVE DATE AND TERM OF PLAN

(a) **Effective Date.** This Plan, as successor to the Corporation's 1989 Stock
Option Plan, become effective as of the applicable Effective Date, and no further option grants or
stock issuances shall be made under the 1989 Plan from and after such Effective Date.

(b) **Incorporation of 1989 Plan.** Each option issued and outstanding under the
1989 Plan immediately prior to the Effective Date of the Discretionary Option Grant Program
shall be incorporated into this Plan and treated as an outstanding option under this Plan, but each
such option shall continue to be governed solely by the terms and conditions of the instrument
evidencing such grant, and nothing in this Plan shall be deemed to affect or otherwise modify the
rights or obligations of the holders of such options with respect to their acquisition of shares of
Common Stock thereunder.

(c) **Discretion.** The option and vesting acceleration provisions of Article II
relating to Corporate Transactions and Changes in Control may, in the Plan Administrator's
discretion, be extended to one or more stock options which are outstanding under the 1989 Plan
on the Effective Date of the Discretionary Option Grant Program but which do not otherwise
provide for such acceleration.
(d) Termination of Plan. The Plan shall terminate upon the earlier of (i) January 19, 2013\(^2\) or (ii) the date on which all shares available for issuance under the Plan shall have been issued pursuant to the exercise of options granted under the Plan. If the date of termination is determined under clause (i) above, then all option grants and unvested stock issuances outstanding on such date shall thereafter continue to have force and effect in accordance with the provisions of the instruments evidencing such grants or issuances.

5.4 USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares pursuant to option grants under the Plan shall be used for general corporate purposes.

5.5 REGULATORY APPROVALS

(a) General. The implementation of the Plan, the granting of any option under the Plan, and the issuance of Common Stock upon the exercise or surrender of the option grants made hereunder shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, and the Common Stock issued pursuant to it.

(b) Securities Registration. No shares of Common Stock or other assets shall be issued or delivered under this Plan unless and until there shall have been compliance with all applicable requirements of Federal and State securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any securities exchange on which stock of the same class is then listed.

5.6 NO EMPLOYMENT/SERVICE RIGHTS

Neither the action of the Corporation in establishing the Plan, nor any action taken by the Plan Administrator hereunder, nor any provision of the Plan shall be construed so as to grant any individual the right to remain in the employ or service of the Corporation (or any parent or subsidiary corporation) for any period of specific duration, and the Corporation (or any parent or subsidiary corporation retaining the services of such individual) may terminate such individual's employment or service at any time and for any reason, with or without cause.

5.7 MISCELLANEOUS PROVISIONS

(a) Assignment. The right to acquire Common Stock or other assets under the Plan may not be assigned, encumbered or otherwise transferred by any Optionee or Participant. The provisions of the Plan shall inure to the benefit of, and be binding upon, the Corporation and its successors or assigns, whether by Corporate Transaction or otherwise, and the Participants

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\(^2\) By amendment approved by the stockholders on August 18, 2000, the term of the Plan was extended from January 19, 2003 to January 19, 2013.
and Optionees, the legal representatives of their respective estates, their respective heirs or legatees and their permitted assignees.

(b) Choice of Law. The provisions of the Plan relating to the exercise of options and the vesting of shares shall be governed by the laws of the State of Arizona, as such laws are applied to contracts entered into and performed in such State.

(c) Plan Not Exclusive. This Plan is not intended to be the exclusive means by which the Corporation may issue options or warrants to acquire its shares of Common Stock, stock awards or issuances, or any other type of award or issuance. To the extent permitted by applicable law, any such other option, warrants, issuance, or awards may be issued by the Company, other than pursuant to this Plan, without shareholder approval.

EXECUTED as of the 16th day of August, 2002.

MICROCHIP TECHNOLOGY INCORPORATED,
a Delaware corporation

By:  /s/ Steve Sanghi
     Steve Sanghi
     Its: Chairman of the Board, President and Chief Executive Officer

Attested by:

/s/ Mary K. Simmons
Mary K. Simmons, Secretary
CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Steve Sanghi, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Microchip Technology Incorporated on Form 10-Q for the quarterly period ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ Steve Sanghi
Name: Steve Sanghi
Title: President and Chief Executive Officer
Date: November 12, 2002

I, Gordon W. Parnell, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Microchip Technology Incorporated on Form 10-Q for the quarterly period ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ Gordon W. Parnell
Name: Gordon W. Parnell
Title: Vice President and Chief Financial Officer
Date: November 12, 2002