Microchip Technology Incorporated

Quarters Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2009.

Commission File Number: 0-21184

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

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

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

Shares Outstanding of Registrant’s Common Stock

Class
Common Stock, $0.001 par value

Outstanding at January 31, 2010 184,235,381 shares
## PART I. FINANCIAL INFORMATION

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## PART II. OTHER INFORMATION

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## SIGNATURES

## CERTIFICATIONS

## EXHIBITS
### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009 (Unaudited)</th>
<th>As adjusted March 31, 2009 (See Notes 1 and 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>$361,291</td>
<td>$446,329</td>
</tr>
<tr>
<td><strong>Short-term investments</strong></td>
<td>716,683</td>
<td>943,616</td>
</tr>
<tr>
<td><strong>Accounts receivable, net</strong></td>
<td>113,763</td>
<td>88,525</td>
</tr>
<tr>
<td><strong>Inventories</strong></td>
<td>112,784</td>
<td>131,510</td>
</tr>
<tr>
<td><strong>Prepaid expenses</strong></td>
<td>14,124</td>
<td>11,447</td>
</tr>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td>73,744</td>
<td>75,681</td>
</tr>
<tr>
<td><strong>Other current assets</strong></td>
<td>50,348</td>
<td>51,736</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,442,737</td>
<td>1,748,844</td>
</tr>
<tr>
<td><strong>Property, plant and equipment, net</strong></td>
<td>495,065</td>
<td>531,687</td>
</tr>
<tr>
<td><strong>Long-term investments</strong></td>
<td>421,628</td>
<td>50,826</td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>36,165</td>
<td>36,165</td>
</tr>
<tr>
<td><strong>Intangible assets, net</strong></td>
<td>28,996</td>
<td>25,718</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>19,016</td>
<td>18,526</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$2,443,607</td>
<td>$2,411,766</td>
</tr>
</tbody>
</table>

### LIABILITIES AND STOCKHOLDERS' EQUITY

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009 (Unaudited)</th>
<th>As adjusted March 31, 2009 (See Notes 1 and 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounts payable</strong></td>
<td>$38,387</td>
<td>$29,228</td>
</tr>
<tr>
<td><strong>Accrued liabilities</strong></td>
<td>49,165</td>
<td>42,486</td>
</tr>
<tr>
<td><strong>Deferred income on shipments to distributors</strong></td>
<td>97,583</td>
<td>83,931</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>185,135</td>
<td>155,645</td>
</tr>
<tr>
<td><strong>Junior convertible debentures</strong></td>
<td>339,000</td>
<td>334,184</td>
</tr>
<tr>
<td><strong>Long-term income tax payable</strong></td>
<td>53,967</td>
<td>70,051</td>
</tr>
<tr>
<td><strong>Deferred tax liability</strong></td>
<td>377,647</td>
<td>365,734</td>
</tr>
<tr>
<td><strong>Other long-term liabilities</strong></td>
<td>3,983</td>
<td>3,834</td>
</tr>
<tr>
<td><strong>Stockholders' equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, $0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Common stock, $0.001 par value; authorized 450,000,000 shares; 218,789,994 shares issued and 184,234,148 shares outstanding at December 31, 2009; 218,789,994 shares issued and 182,769,124 shares outstanding at March 31, 2009</td>
<td>184</td>
<td>183</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>1,275,123</td>
<td>1,273,876</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,253,977</td>
<td>1,299,317</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>2,712</td>
<td>4,312</td>
</tr>
<tr>
<td>Common stock held in treasury: 34,555,846 shares at December 31, 2009; 36,020,870 shares at March 31, 2009</td>
<td>(1,048,121)</td>
<td>(1,095,370)</td>
</tr>
<tr>
<td><strong>Total stockholders' equity</strong></td>
<td>1,483,875</td>
<td>1,482,318</td>
</tr>
<tr>
<td><strong>Total liabilities and stockholders' equity</strong></td>
<td>$2,443,607</td>
<td>$2,411,766</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 December 31, 2009</th>
<th>Nine Months Ended December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As adjusted</td>
<td>As adjusted</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>2008</td>
</tr>
</tbody>
</table>

|                      | 730,044                               | 730,044                              |
|                      | 2009                                 | 2009                                |

|                      | 2008                                 | 2008                                |
|                      | 2009                                 | 2009                                |

### Net sales
$250,099 $192,166 $669,709 $730,044

### Cost of sales (1)
104,103 87,379 303,938 297,507

### Gross profit
145,996 104,787 365,771 432,537

### Operating expenses:

**Research and development (1)**
30,332 26,973 87,536 89,868

**Selling, general and administrative (1)**
43,096 36,840 120,525 127,882

**Special charges**
--- 500 1,238 500

### Operating income
72,568 40,474 156,472 214,287

### Other income (expense):

**Interest income**
4,946 7,410 12,727 27,761

**Interest expense**
(7,763) (7,096) (23,312) (21,608)

**Other, net**
128 (20,378) 500 7,929

### Income before income taxes
69,403 20,410 153,816 204,478

### Income tax provision (benefit)
476 (51,946) 12,560 (19,145)

### Net income
$69,403 $72,356 $141,256 $223,623

### Basic net income per common share
$0.38 $0.40 $0.77 $1.22

### Diluted net income per common share
$0.37 $0.39 $0.76 $1.19

### Dividends declared per common share
0.340 0.339 1.018 1.007

### Basic common shares outstanding
183,856 181,963 183,301 183,414

### Diluted common shares outstanding
187,861 183,999 186,770 187,661

(1) Includes share-based compensation expense as follows:

<table>
<thead>
<tr>
<th></th>
<th>1,266</th>
<th>967</th>
<th>4,845</th>
<th>4,645</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>3,108</td>
<td>2,948</td>
<td>9,205</td>
<td>8,023</td>
</tr>
<tr>
<td>Research and development</td>
<td>4,463</td>
<td>4,250</td>
<td>13,285</td>
<td>11,689</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>
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<th>Nine Months Ended</th>
<th>As adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31,</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$141,256</td>
<td>$223,623</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>67,735</td>
<td>72,210</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>15,466</td>
<td>4,920</td>
</tr>
<tr>
<td>Share-based compensation expense related to equity incentive plans</td>
<td>27,335</td>
<td>24,357</td>
</tr>
<tr>
<td>Tax benefit from equity incentive plans</td>
<td>2,089</td>
<td>11,239</td>
</tr>
<tr>
<td>Excess tax benefit from share-based compensation</td>
<td>(2,050)</td>
<td>(10,453)</td>
</tr>
<tr>
<td>Convertible debt derivatives - revaluation and amortization</td>
<td>154</td>
<td>(1,153)</td>
</tr>
<tr>
<td>Amortization of convertible debenture issuance costs</td>
<td>302</td>
<td>575</td>
</tr>
<tr>
<td>Gain on sale of assets</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td>Special charges</td>
<td>1,238</td>
<td>500</td>
</tr>
<tr>
<td>Sales/(purchases) of trading securities, net</td>
<td>86,970</td>
<td>(79,319)</td>
</tr>
<tr>
<td>(Gain) loss on trading securities</td>
<td>(7,425)</td>
<td>12,166</td>
</tr>
<tr>
<td>Unrealized impairment loss on available-for-sale investments</td>
<td>2,170</td>
<td>2,548</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in accounts receivable</td>
<td>(25,238)</td>
<td>60,302</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>19,216</td>
<td>(10,966)</td>
</tr>
<tr>
<td>Increase in deferred income on shipments to distributors</td>
<td>13,652</td>
<td>2,980</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued liabilities</td>
<td>14,600</td>
<td>(18,446)</td>
</tr>
<tr>
<td>Change in other assets and liabilities</td>
<td>(13,351)</td>
<td>(30,415)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$344,019</td>
<td>264,568</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of available-for-sale investments</td>
<td>(1,311,946)</td>
<td>(751,140)</td>
</tr>
<tr>
<td>Sales and maturities of available-for-sale investments</td>
<td>1,083,146</td>
<td>768,553</td>
</tr>
<tr>
<td>Investment in other assets</td>
<td>(5,975)</td>
<td>(15,023)</td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>100</td>
<td>156</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(28,416)</td>
<td>(91,821)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(263,091)</td>
<td>(89,275)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of cash dividend</td>
<td>(186,594)</td>
<td>(184,835)</td>
</tr>
<tr>
<td>Repurchase of common stock</td>
<td>---</td>
<td>(123,929)</td>
</tr>
<tr>
<td>Proceeds from sale of common stock</td>
<td>18,578</td>
<td>26,476</td>
</tr>
<tr>
<td>Excess tax benefit from share-based compensation</td>
<td>2,050</td>
<td>10,453</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(165,966)</td>
<td>(271,835)</td>
</tr>
<tr>
<td><strong>Net decrease in cash and cash equivalents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>446,329</td>
<td>487,736</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$361,291</td>
<td>$391,194</td>
</tr>
</tbody>
</table>

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 Company owns 100% of the outstanding stock in all of its subsidiaries.

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 (the SEC). 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 SEC 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 fiscal year ended March 31, 2009. The results of operations for the three and nine months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010 or for any other period.

Subsequent events have been evaluated through February 9, 2010, which is the date the financial statements were issued.

(2) **Adopted and Recently Issued Accounting Pronouncements**

**Accounting Standards Codification.** Effective July 1, 2009, the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became the single official source of authoritative, nongovernmental generally accepted accounting principles (GAAP) in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission. The codification was effective for interim and annual reporting periods ending after September 15, 2009, except for certain nonpublic nongovernmental entities. The Company's accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to the Company's consolidated financial statements have been changed to refer to the appropriate section of ASC.

**Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion.** On April 1, 2009, the Company adopted the Cash Conversion Subsections of ASC Subtopic 470-20, Debt with Conversion and Other Options – Cash Conversion (the Cash Conversion Subsections), which clarify the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The Cash Conversion Subsections require issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The Cash Conversion Subsections require bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in the Company's consolidated statements of operations.

The Cash Conversion Subsections require retrospective application to the terms of instruments as they existed for all periods presented. The adoption of the Cash Conversion Subsections affects the accounting for the Company's 2.125% junior subordinated convertible debentures issued in December 2007 and due in December 2037. The retrospective application of this guidance affects the Company's fiscal years 2008 and 2009.

The following table sets forth the effect of the retrospective application of the Cash Conversion Subsections on certain previously reported line items (in thousands, except per share data):
Condensed Consolidated Statements of Income:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Reported</td>
<td>As Adjusted</td>
</tr>
<tr>
<td></td>
<td>$ (5,775)</td>
<td>$ (7,096)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$ 21,731</td>
<td>$ 20,410</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>$ (51,438)</td>
<td>$ (51,946)</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>$ 73,169</td>
<td>$ 72,356</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 0.40</td>
<td>$ 0.40</td>
</tr>
<tr>
<td>Basic net income per common share</td>
<td>$ 0.40</td>
<td>$ 0.39</td>
</tr>
<tr>
<td>Diluted net income per common share</td>
<td>$ 1.20</td>
<td>$ 1.19</td>
</tr>
</tbody>
</table>

Condensed Consolidated Balance Sheet:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Reported</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>$ 69,626</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$ 1,742,789</td>
</tr>
<tr>
<td>Other assets</td>
<td>$ 34,254</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 2,421,439</td>
</tr>
<tr>
<td>Junior convertible debentures</td>
<td>$ 1,149,184</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>$ 51,959</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>$ 778,204</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$ 1,303,437</td>
</tr>
<tr>
<td>Total stockholders' equity</td>
<td>$ 990,766</td>
</tr>
<tr>
<td>Total liabilities and stockholders' equity</td>
<td>$ 2,421,439</td>
</tr>
</tbody>
</table>

Other-Than-Temporary Impairments. In April 2009, the FASB issued guidance changing existing guidance for determining whether an impairment of debt securities is other than temporary. This guidance requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it will not more likely than not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting this guidance, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. The Company adopted this guidance on April 1, 2009. The Company does not meet the conditions necessary to recognize the noncredit loss component of its auction rate securities in other comprehensive income. Accordingly, the Company did not reclassify any previously recognized other-than-temporary impairment losses from retained earnings to accumulated other comprehensive income and the adoption of this guidance had no impact on the Company's consolidated financial statements. Refer to Note 4 for further discussion of the Company's investments in marketable securities.

(3) Special Charges

During the three months ended June 30, 2009, the Company agreed to the terms of a patent license with an unrelated third-party and signed an agreement on July 9, 2009. The patent license settled alleged infringement claims. The total payment made to the third-party in July 2009 was $1.4 million, $1.2 million of which was expensed in the first quarter of fiscal 2010 and the remaining $0.2 million was recorded as a prepaid royalty that will be amortized over the remaining life of the patent, which expires in June 2010.

On October 15, 2008, the Company announced the acquisition of Hampshire Company, a leader in the large format touch screen controller market. As a result of the acquisition, the Company incurred a $0.5 million in-process research and development charge in the third quarter of fiscal 2009.
The Company’s investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, and delivers an appropriate yield in relationship to the Company’s investment guidelines and market conditions. The following is a summary of available-for-sale and trading securities at December 31, 2009 (amounts in thousands):

### Available-for-sale Securities

<table>
<thead>
<tr>
<th></th>
<th>Adjusted Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government agency bonds</td>
<td>$417,264</td>
<td>$354</td>
<td>$1,381</td>
<td>$416,237</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>262,127</td>
<td>2,333</td>
<td>---</td>
<td>264,460</td>
</tr>
<tr>
<td>Auction rate securities</td>
<td>16,731</td>
<td>---</td>
<td>---</td>
<td>16,731</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>409,515</td>
<td>3,304</td>
<td>1,136</td>
<td>411,683</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,105,637</strong></td>
<td><strong>$5,991</strong></td>
<td><strong>$2,517</strong></td>
<td><strong>$1,109,111</strong></td>
</tr>
</tbody>
</table>

### Trading Securities

<table>
<thead>
<tr>
<th></th>
<th>Adjusted Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction rate securities</td>
<td>$26,500</td>
<td>---</td>
<td>---</td>
<td>$26,500</td>
</tr>
<tr>
<td>Put option on auction rate securities</td>
<td>2,700</td>
<td>---</td>
<td>---</td>
<td>2,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$29,200</strong></td>
<td><strong>$---</strong></td>
<td><strong>$---</strong></td>
<td><strong>$29,200</strong></td>
</tr>
</tbody>
</table>

At December 31, 2009, the Company's available-for-sale and trading securities are presented on the condensed consolidated balance sheets as short-term investments of $716.7 million and long-term investments of $421.6 million.

Historically, the Company has made certain strategic investments in publicly traded companies which it classified as trading securities. During the three months ended December 31, 2009, the Company sold its remaining small position in trading securities with no recognized gain or loss. During the nine months ended December 31, 2009, the Company recognized a gain in earnings of $7.5 million on its trading securities. The Company had a net realized gain of $1.0 million on trading securities that it sold during the nine months ended December 31, 2009.

At December 31, 2009, $43.2 million of the fair value of the Company's investment portfolio was invested in auction rate securities (ARS). With the continuing liquidity issues in the global credit markets, the Company's ARS have experienced multiple failed auctions. In September 2007 and February 2008, auctions for $24.9 million and $34.8 million, respectively, of the original purchase value of the Company's investments in ARS first failed. While the Company continues to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for these ARS no longer approximates the original purchase value.

The $24.9 million in failed auctions noted above have continued to fail through the filing date of this Quarterly Report on Form 10-Q. The fair value of the failed ARS of $16.7 million has been estimated based on market information and estimates determined by management and could change significantly based on future market conditions. The Company evaluated the impairments in the value of these ARS, determining its intent to sell these securities prior to the recovery of its amortized cost basis resulted in the securities being other-than-temporarily impaired and has recognized an impairment charge on these investments of $0.5 million and $2.2 million in the three and nine months ended December 31, 2009, respectively.
The $34.8 million of ARS that failed during February 2008 are investments in student loan-backed ARS. Approximately $1.3 million and $2.7 million of these ARS were redeemed at par by the issuers in the three and nine months ended December 31, 2009, respectively, reducing the Company’s overall position in these ARS to $29.2 million. Based upon the Company’s evaluation of available information, it believes these investments are of high credit quality, as all of the investments carry AAA credit ratings by one or more of the major credit rating agencies and are largely backed by the federal government (Federal Family Education Loan Program). The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on future market conditions.

In November 2008, the Company executed an ARS rights agreement (the Rights) with the broker through which the Company purchased the $29.2 million in ARS that provides (1) the Company with the right to put these ARS back to the broker at par anytime during the period from June 30, 2010 through July 2, 2012, and (2) the broker with the right to purchase or sell the ARS at par on the Company’s behalf anytime through July 2, 2012. The Company accounted for the acceptance of the Rights as the receipt of a put option for no consideration and recognized a gain with a corresponding recognition as a long-term investment. The Company expects any future changes in the fair value of the ARS to be largely offset by changes in the fair value of the related Rights without any significant net impact to the Company’s income statement. The Company will continue to measure the ARS and the Rights at fair value (utilizing Level 3 inputs) until the earlier of maturity or exercise. The Company intends and has the ability to hold the $29.2 million of ARS until the market recovers or until June 30, 2010 when it has the right to sell the ARS at par to the broker as it does not anticipate having to sell these securities to fund the operations of its business.

At December 31, 2009, the Company evaluated other investments within its investment portfolio and noted unrealized losses of $2.5 million which were due to fluctuations in interest rates. Management does not believe any of the unrealized losses represent other-than-temporary impairments based on its evaluation of available evidence as of December 31, 2009. The Company’s intent is to hold these investments until these assets are no longer impaired. For those investments not scheduled to mature until after December 31, 2010, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments.

The amortized cost and estimated fair value of the available-for-sale securities at December 31, 2009, by maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

<table>
<thead>
<tr>
<th>Available-for-sale</th>
<th>Adjusted Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$380,558</td>
<td>$2,038</td>
<td>$31</td>
<td>$382,565</td>
</tr>
<tr>
<td>Due after one year and through five years</td>
<td>708,348</td>
<td>3,953</td>
<td>2,486</td>
<td>709,815</td>
</tr>
<tr>
<td>Due after five years and through ten years</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>16,731</td>
<td>---</td>
<td>---</td>
<td>16,731</td>
</tr>
<tr>
<td>Total</td>
<td>$1,105,637</td>
<td>$5,991</td>
<td>$2,517</td>
<td>$1,109,111</td>
</tr>
</tbody>
</table>

During the quarter ended December 31, 2009, the Company had no realized gains or losses from sales of available-for-sale securities compared to a realized gain of $7,000 in the quarter ended September 30, 2009.
Fair Value Measurements

Accounting rules for fair value clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs such as quoted prices in active markets;
Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2009 are as follows (amounts in thousands):

<table>
<thead>
<tr>
<th>Assets</th>
<th>Quoted Prices in Active Markets for Identical Instruments (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Total Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market fund deposits</td>
<td>$67,740</td>
<td>$---</td>
<td>$---</td>
<td>$67,740</td>
</tr>
<tr>
<td>Deposit accounts</td>
<td>$---</td>
<td>$293,551</td>
<td>$---</td>
<td>$293,551</td>
</tr>
<tr>
<td>Government agency bonds</td>
<td>$---</td>
<td>$416,237</td>
<td>$---</td>
<td>$416,237</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>$---</td>
<td>$264,460</td>
<td>$---</td>
<td>$264,460</td>
</tr>
<tr>
<td>Auction rate securities</td>
<td>$---</td>
<td>$---</td>
<td>$43,231</td>
<td>$43,231</td>
</tr>
<tr>
<td>Put option on auction rate securities</td>
<td>$---</td>
<td>$---</td>
<td>$2,700</td>
<td>$2,700</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$---</td>
<td>$411,683</td>
<td>$---</td>
<td>$411,683</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$67,740</td>
<td>$1,385,931</td>
<td>$45,931</td>
<td>$1,499,602</td>
</tr>
</tbody>
</table>

For Level 3 valuations, the Company estimated the fair value of its ARS based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The Company estimated the value of the put option on the ARS by evaluating the estimated cash flows before and after the receipt of the put option, discounted at rates reflecting the likelihood of default and lack of liquidity, or in the case of the payment of the par value to be paid by the broker at exercise of the put option, the counterparty credit risk. The estimated fair values that are categorized as Level 3 as well as the marketable securities and put options on publicly traded stock could change significantly based on future market conditions. Refer to Note 4 for further discussion of the Company’s investments in ARS.

The following table presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three and nine months ended December 31, 2009 (amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, 2009</th>
<th>Nine Months Ended December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at September 30, 2009 and March 31, 2009, respectively</td>
<td>$47,784</td>
<td>$50,826</td>
</tr>
<tr>
<td>Securities redeemed at par</td>
<td>$(1,325)</td>
<td>$(2,725)</td>
</tr>
<tr>
<td>Impairment losses included in interest income</td>
<td>$(528)</td>
<td>$(2,170)</td>
</tr>
<tr>
<td>Balance at December 31, 2009</td>
<td>$45,931</td>
<td>$45,931</td>
</tr>
</tbody>
</table>
Assets and liabilities measured at fair value on a recurring basis are presented/classified on the condensed consolidated balance sheets at December 31, 2009 as follows (amounts in thousands):

<table>
<thead>
<tr>
<th>Assets</th>
<th>Quoted Prices in Active Markets for Identical Instruments (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Total Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 67,740</td>
<td>$ 293,551</td>
<td>---</td>
<td>$ 361,291</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>---</td>
<td>687,483</td>
<td>29,200</td>
<td>716,683</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>---</td>
<td>404,897</td>
<td>16,731</td>
<td>421,628</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$ 67,740</td>
<td>$ 1,385,931</td>
<td>$ 45,931</td>
<td>$ 1,499,602</td>
</tr>
</tbody>
</table>

(6) Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. The carrying amount of short-term and long-term investments approximates fair value as the securities are marked to market as of each balance sheet date with any unrealized gains and losses reported in stockholders’ equity. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was $1,167.1 million at December 31, 2009, based on the trading price of the bonds, compared to the carrying value of $339.0 million. See Note 11 for additional information regarding the carrying value of the Company’s junior subordinated convertible debentures.

(7) Accounts Receivable

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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>$ 116,326</td>
<td>$ 91,325</td>
</tr>
<tr>
<td>Other</td>
<td>625</td>
<td>376</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>3,188</td>
<td>3,176</td>
</tr>
<tr>
<td></td>
<td>$ 113,763</td>
<td>$ 88,525</td>
</tr>
</tbody>
</table>

(8) Inventories

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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$ 4,863</td>
<td>$ 3,693</td>
</tr>
<tr>
<td>Work in process</td>
<td>97,314</td>
<td>114,676</td>
</tr>
<tr>
<td>Finished goods</td>
<td>10,607</td>
<td>13,141</td>
</tr>
<tr>
<td></td>
<td>$ 112,784</td>
<td>$ 131,510</td>
</tr>
</tbody>
</table>

Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.
Property, plant and equipment consists of the following (amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$39,671</td>
<td>$39,671</td>
</tr>
<tr>
<td>Building and building improvements</td>
<td>$347,625</td>
<td>$334,717</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>$1,166,684</td>
<td>$1,148,588</td>
</tr>
<tr>
<td>Projects in process</td>
<td>$95,470</td>
<td>$114,478</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>$1,649,450</td>
<td>$1,637,454</td>
</tr>
<tr>
<td></td>
<td>$1,154,385</td>
<td>$1,105,767</td>
</tr>
<tr>
<td></td>
<td>$495,065</td>
<td>$531,687</td>
</tr>
</tbody>
</table>

Depreciation expense attributed to property, plant and equipment was $65.0 million in the nine months ended December 31, 2009 and $70.4 million in the nine months ended December 31, 2008.

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. The Company had an effective tax rate of 8.2% for the nine-month period ended December 31, 2009 and an effective tax rate benefit of 9.4% for the nine-month period ended December 31, 2008. During the three and nine months ended December 31, 2009, the Company settled an IRS examination of fiscal 2002, 2003 and 2004 which resulted in a one-time tax benefit of $8.5 million. During the three and nine months ended December 31, 2008, the Company settled an IRS examination of fiscal 2005 which resulted in a one-time tax benefit of $16.9 million. Also, during the three and nine months ended December 31, 2008, the IRS issued revised Treasury Regulations that provided a clarification of the tax treatment of certain items that the Company had previously established a tax accrual for. As a result of this clarification, the Company recognized a $33.0 million tax benefit. During the three and nine months ended December 31, 2008, the Company recognized a U.S. tax benefit of $7.4 million from a loss incurred on its trading securities as these are U.S. investments taxed at a higher rate than the Company's overall effective tax rate. Additionally, in October 2008, the U.S. Congress passed the Emergency Economic Stabilization Act of 2008 which included a provision to extend the research and development tax credit retroactively from January 1, 2008. As a result, the Company recognized a one-time tax benefit of $1.5 million in three and nine months ended December 31, 2008. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates.

At March 31, 2009, the Company had $70.1 million of unrecognized tax benefits. Unrecognized tax benefits decreased by $16.1 million in the nine months ended December 31, 2009 compared to the March 31, 2009 balances as a result of the accrual for uncertain tax positions, the accrual of deficiency interest on these positions and a release of the accrual related to the settlement of an IRS audit.

The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2006 through fiscal 2009 tax years remain open for examination by tax authorities. The U.S. IRS is currently auditing the Company's fiscal years ended March 31, 2006, 2007 and 2008. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2002.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on its estimate of whether, and the extent to which, additional tax payments are more likely than not. The Company believes that it has appropriate support for the income tax positions taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.
The Company believes that it maintains adequate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve 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 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. Although the timing of the resolution and/or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next 12 months.

(11) 2.125% Junior Subordinated Convertible Debentures

The Company’s $1.15 billion principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company’s subsidiaries. The debentures are convertible, subject to certain conditions, into shares of the Company’s common stock at an initial conversion rate of 29.2783 shares of common stock per $1,000 principal amount of debentures, representing an initial conversion price of approximately $34.16 per share of common stock. As of December 31, 2009, none of the conditions allowing holders of the debentures to convert had been met. As a result of a cash dividend of $0.34 per share paid in December 2009, the conversion rate was adjusted to 32.5417 shares of common stock per $1,000 of principal amount of debentures, representing a conversion price of approximately $30.73 per share of common stock.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are initially recorded at fair value. The carrying value of the equity component at December 31, 2009 and at March 31, 2009 was $822.4 million. The estimated fair value of the liability component of the debentures at the issuance date was $327.6 million, resulting in a debt discount of $822.4 million. The unamortized debt discount was $810.3 million at December 31, 2009 and $815.0 million at March 31, 2009. The carrying value of the debentures was $339.0 million at December 31, 2009 and $334.2 million at March 31, 2009. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 28 years. In the three and nine months ended December 31, 2009, the Company recognized $1.6 million and $4.7 million, respectively, in non-cash interest expense related to the amortization of the debt discount. In the three and nine months ended December 31, 2008, the Company recognized $1.3 million and $3.9 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized $6.1 million and $18.3 million of interest expense related to the 2.125% coupon on the debentures in each of the three and nine months ended December 31, 2009 and 2008.

The debentures also include certain embedded features related to the contingent interest payments, the Company making specific types of distributions (e.g., extraordinary dividends), the redemption feature in the event of changes in tax law, and penalty interest in the event of a failure to maintain an effective registration. These features qualify as derivatives and are bundled as a compound embedded derivative that is measured at fair value. The fair value of the derivative as of December 31, 2009 was $0.6 million, compared to the value at March 31, 2009 of $0.5 million, resulting in an increase of interest expense in the first nine months of fiscal 2010 of $0.1 million. The balance of the debentures on the Company’s condensed consolidated balance sheet at December 31, 2009 of $339.0 million includes the fair value of the embedded derivative.

(12) Derivative Instruments

The Company has international operations and is thus subject to foreign currency rate fluctuations. To manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Approximately 99% of the Company’s sales are U.S. Dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company’s operating results. As of December 31, 2009 and March 31, 2009, the Company had no foreign currency derivatives outstanding. The Company recognized an immaterial amount of net realized gains on foreign currency derivatives in the nine months ended December 31, 2009.
Comprehensive Income

Comprehensive income consists of net income offset by net unrealized gains and losses on available-for-sale investments. The components of other comprehensive income and related tax effects were as follows (amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31,</th>
<th>Nine Months Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>$ change in unrealized gains and</td>
<td>$1,637</td>
<td>$(5,968)</td>
</tr>
<tr>
<td>losses on investments, net of tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>effect of $641, ($2,403), $1,616</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and ($1,462), respectively</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income was $67.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>million and $139.7 million for the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>three and nine months ended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2009, respectively,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and $78.3 million and $226.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>million for the three and nine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>months ended December 31, 2008,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>respectively.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employee Benefit Plans

Share-Based Compensation Expense

The following table presents details of share-based compensation expense (amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31,</th>
<th>Nine Months Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$1,266(1)</td>
<td>$967(1)</td>
</tr>
<tr>
<td>Research and development</td>
<td>3,108</td>
<td>2,948</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>4,463</td>
<td>4,250</td>
</tr>
<tr>
<td>Pre-tax effect of share-based</td>
<td>8,837</td>
<td>8,165</td>
</tr>
<tr>
<td>compensation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>1,180</td>
<td>1,454</td>
</tr>
<tr>
<td>Net income effect of share-based</td>
<td>$7,657</td>
<td>$6,711</td>
</tr>
<tr>
<td>compensation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) During the three and nine months ended December 31, 2009, $1.8 million and $5.3 million, respectively, was capitalized to inventory and $1.3 million and $4.8 million, respectively, of previously capitalized inventory was sold. During the three and nine months ended December 31, 2008, $1.8 million and $4.9 million, respectively, was capitalized to inventory and $1.0 million and $4.6 million, respectively, of previously capitalized inventory was sold.

The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2010 through fiscal 2014 related to unvested share-based payment awards at December 31, 2009 is $49.9 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 2.28 years.

Combined Incentive Plan Information

The total intrinsic value of restricted stock units (RSUs) which vested during the three and nine months ended December 31, 2009 was $5.3 million and $12.0 million, respectively. The aggregate intrinsic value of RSUs outstanding at December 31, 2009 was $122.9 million, calculated based on the closing price of the Company’s common stock of $29.05 per share on December 31, 2009. At December 31, 2009, the weighted average remaining expense recognition period was 2.34 years.

The weighted average fair value per share of the RSUs awarded is calculated based on the fair market value of the Company's common stock on the respective grant dates discounted for the Company's expected dividend yield. The weighted average fair value per share of RSUs awarded in the three and nine months ended December 31, 2009 was $20.77 and $18.85, respectively. The weighted average fair value per share of RSUs awarded in the three and nine months ended December 31, 2008 was $20.72 and $25.42, respectively.
The total intrinsic value of options exercised during the three and nine months ended December 31, 2009 was $2.4 million and $4.7 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each equity award.

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2009 was $43.7 million and $42.3 million, respectively. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of $29.05 per share on December 31, 2009.

For the three-month periods ended December 31, 2009 and 2008, the number of option shares exercisable was 8,768,254 and 8,572,398, respectively, and the weighted average exercise price per share was $24.36 and $23.25, respectively.

The weighted average fair value per share of stock options granted in the nine months ended December 31, 2009 was $5.90. The weighted average fair value per share of stock options granted in the nine months ended December 31, 2008 was $10.59. There were no stock options granted in the three-month periods ended December 31, 2009 and 2008.

(15) Net Income Per Common Share

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31</th>
<th></th>
<th>Nine Months Ended December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Net income</td>
<td>$69,403</td>
<td>$72,356</td>
<td>$141,256</td>
<td>$223,623</td>
</tr>
<tr>
<td>Weighted average common shares outstanding</td>
<td>183,856</td>
<td>181,963</td>
<td>183,301</td>
<td>183,414</td>
</tr>
<tr>
<td>Dilutive effect of stock options and RSUs</td>
<td>4,005</td>
<td>2,036</td>
<td>3,469</td>
<td>3,854</td>
</tr>
<tr>
<td>Dilutive effect of convertible debt</td>
<td></td>
<td></td>
<td></td>
<td>393</td>
</tr>
<tr>
<td>Weighted average common and potential common shares outstanding</td>
<td>187,861</td>
<td>183,999</td>
<td>186,770</td>
<td>187,661</td>
</tr>
<tr>
<td>Basic net income per common share</td>
<td>$0.38</td>
<td>$0.40</td>
<td>$0.77</td>
<td>$1.22</td>
</tr>
<tr>
<td>Diluted net income per common share</td>
<td>$0.37</td>
<td>$0.39</td>
<td>$0.76</td>
<td>$1.19</td>
</tr>
</tbody>
</table>

Diluted net income per common share for the three and nine months ended December 31, 2009 does not include any incremental shares issuable upon the exchange of the debentures (see Note 11). The nine-month period ended December 31, 2008 includes 392,594 incremental shares issuable upon the exchange of the debentures. The debentures have no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for the three and nine months ended December 31, 2009 was $30.94 and $31.37, respectively.

Weighted average common shares exclude the effect of anti-dilution option shares. As of the three and nine-month periods ended December 31, 2009, the number of option shares that were antidilutive was 3,552,862 and 5,289,097, respectively. As of the three and nine-month periods ended December 31, 2008, the number of option shares that were antidilutive was 7,608,287 and 617,023, respectively.
During the three and nine months ended December 31, 2009, the Company did not repurchase any of its shares of common stock. During the nine months ended December 31, 2008, the Company purchased 4.0 million of its common stock for a total of $123.9 million. The Company did not purchase any of its shares of common stock in the three months ended December 31, 2008. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of December 31, 2009, the Company held approximately 34.6 million shares as treasury shares.

A quarterly cash dividend of $0.34 per share was paid on December 2, 2009 in the aggregate amount of $62.5 million. A quarterly cash dividend of $0.341 per share was declared on February 3, 2010 and will be paid on March 4, 2010 to shareholders of record as of February 18, 2010. The Company expects the March 2010 payment of its quarterly cash dividend to be approximately $62.9 million.

On February 2, 2010, the Company signed a definitive agreement to acquire Silicon Storage Technology, Inc. for $2.85 per share in cash or approximately $275 million. The Company currently expects the transaction to close in the first quarter of fiscal 2011.
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report, including “Part I – Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Part II - Item 1A Risk Factors,” contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as “anticipate,” “believe,” “plan,” “expect,” “future,” “intend” and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under “Risk Factors,” beginning at page 36 and elsewhere in this Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. These forward-looking statements include, without limitation, statements regarding the following:

- The effects that adverse global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, and fixed cost absorption on gross margin;
- The amount of changes in demand for our products and those of our customers;
- The level of orders that will be received and shipped within a quarter;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that deferred cost of sales will have low risk of material impairment;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- Our ability to increase the proprietary portion of our analog and interface product lines and the effect of such an increase;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities and planned expansion activities provide sufficient capacity to respond to increases in demand;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our expectation that our wafer fabs will operate at high levels with no under-absorption of fixed costs;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- Our ability to attract and retain qualified personnel;
- The cost effectiveness of using our own assembly and test operations;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity;
- The impact of seasonality on our business;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not harm our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- That the idling of assets will not impair the value of such assets;
- The recoverability of our deferred tax assets;
We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of Microchip's overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three and nine months ended December 31, 2009 compared to the three and nine months ended December 31, 2008. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control products, which include microcontrollers, high-performance linear and mixed signal devices, power management and thermal management devices, interface devices, Serial EEPROMs, and our patented KEELOQ® security devices. We provide highly cost-effective embedded control products that also offer the advantages of small size, high performance, low voltage/power operation and ease of development, enabling timely and cost-effective embedded control product integration by our customers.

We sell our products to a broad base of domestic and international customers across a variety of industries. The principal markets that we serve include consumer, automotive, industrial, office automation and telecommunications. Our business is subject to fluctuations based on economic conditions within these markets. Beginning with the third quarter of fiscal 2009, the downturn in the U.S. and global economies adversely impacted our key markets resulting in adverse fluctuations in our business; however, in the first three quarters of fiscal 2010 we saw an upturn in our key markets, resulting in improvements to our business, though not to earlier levels of revenue and profitability equal to those we achieved in the first and second quarters of fiscal 2009.
Our manufacturing operations include wafer fabrication and assembly and test. The ownership of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning our wafer fabrication facilities and our assembly and test operations, and by employing statistical process control techniques, we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture the wafer manufacturing and a portion of the assembly and test profit margin.

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

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

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

Critical Accounting Policies and Estimates

General

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

Revenue Recognition - Distributors

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

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

We sell the majority of the items in our product catalog to our distributors worldwide at a uniform list price. However, distributors resell our products to end customers at a very broad range of individually negotiated price points. The majority of our distributors' resales require a reduction from the original list price paid. Often, under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information to us regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than our cost have historically been rare. The effect of granting these credits establishes the net selling price to our distributors for the product and results in the net revenue recognized by us when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow us to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, we do not reduce deferred income on shipments to distributors or accounts receivable by anticipated future concessions; rather, price concessions are typically recorded against deferred income on shipments to distributors and accounts receivable when incurred, which is generally at the time the distributor sells the product. At December 31, 2009, we had approximately $143.6 million of deferred revenue and $46.0 million in deferred cost of sales recognized as $97.6 million of deferred income on shipments to distributors. At March 31, 2009, we had approximately $118.2 million of deferred revenue and $34.3 million in deferred cost of sales recognized as $83.9 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in our income statement will be lower than the amount reflected on the balance sheet due to additional price credits to be granted to the distributors when the product is sold to their customers. These additional price credits historically have resulted in the deferred income approximating the overall gross margins that we recognize in the distribution channel of our business.

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Distributor advances, reflected as a reduction of deferred income on shipments to distributors on our condensed consolidated balance sheets, totaled $51.8 million at December 31, 2009 and $37.6 million at March 31, 2009. On sales to distributors, our payment terms generally require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. The sales price to our distributors may be higher than the amount that the distributors will ultimately owe us because distributors often negotiate price reductions after purchasing the product from us and such reductions are often significant. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of our distributors. As such, we have entered into agreements with certain distributors whereby we advance cash to the distributors to reduce the distributor's working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on our revenue recognition or our condensed consolidated statements of income. We process discounts taken by distributors against our deferred income on shipments to distributors' balance and true-up the advanced amounts generally after the end of each completed fiscal quarter. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be cancelled by us at any time.

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

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

Share-Based Compensation

We measure at fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, RSUs and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Total share-based compensation during the nine months ended December 31, 2009 was $27.8 million, of which $22.5 million was reflected in operating expenses. Total share-based compensation reflected in cost of sales during the nine months ended December 31, 2009 was $4.8 million. Total share-based compensation included in our inventory balance was $3.7 million at December 31, 2009.

Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. The fair value of our RSUs is based on the fair market value of our common stock on the date of grant discounted for expected future dividends. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under stock participation plans. Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. We use a blend of historical and implied volatility based on options freely traded in the open market as we believe this is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of future dividend payouts. We estimate the number of share-based awards that will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the effect of
adjusting the rate for all expense amortization after April 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher or lower than the estimated forfeiture rate, then an adjustment is made to increase or decrease the estimated forfeiture rate, which will result in a decrease or increase to the expense recognized in our financial statements. If forfeiture adjustments are made, they would affect our gross margin, research and development expenses, and selling, general, and administrative expenses. The effect of forfeiture adjustments through the third quarter of fiscal 2010 was immaterial.

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

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out method. We write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. In estimating our inventory obsolescence, we primarily evaluate estimates of demand over a 12-month period and record impairment charges for inventory on hand in excess of the estimated 12-month demand.

In periods where our production levels are substantially below our normal operating capacity, such as in the second half of fiscal 2009 and the first half of fiscal 2010, the reduced production levels of our manufacturing facilities are charged directly to cost of sales.

Investments

We classify our investments as trading securities or available-for-sale securities based upon management's intent with regard to the investments and the nature of the underlying securities.

Our trading securities have consisted of strategic investments in shares of publicly traded common stock and ARS that we intend to dispose of through the exercise of a put option. (See Note 4 to our condensed consolidated financial statements for further discussion of the put option.) Our investments in trading securities are carried at fair value with unrealized gains and losses reported in Other, net, in our consolidated statements of income.

Our available-for-sale securities consist of government agency bonds, municipal bonds, ARS, and corporate bonds. Our investments in available-for-sale securities are carried at fair value with unrealized gains and losses reported in stockholders' equity. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security. Dividend and interest income are recognized when earned. The cost of securities sold is calculated using the specific identification method.

We include within our short-term investments our trading securities, as well as our income yielding available-for-sale securities that can be readily converted to cash and include within long-term investments those income yielding available-for-sale securities with maturities of over one year that have unrealized losses attributable to them or those that cannot be readily liquidated. We have the ability to hold our long-term investments with temporary impairments until such time as these assets are no longer impaired. Such recovery of unrealized losses is not expected to occur within the next year.

Due to the lack of availability of observable market quotes on certain of our investment portfolio of ARS, we utilize valuation models including those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact our ARS valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk, the ongoing strength and quality of the credit markets and market liquidity.
The credit markets experienced significant deterioration and uncertainty beginning in the second half of fiscal 2008. If these conditions continue, or we experience any additional ratings downgrades on any investments in our portfolio (including our ARS), we may incur additional impairments to our investment portfolio, which could negatively affect our financial condition, cash flow and reported earnings.

Income Taxes

As part of the process of preparing our condensed 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 condensed consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have not provided for a valuation allowance because we believe that it is more likely than not that our deferred tax assets 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 December 31, 2009, our gross deferred tax asset was $73.7 million.

Various taxing authorities in the U.S. and other countries in which we do business scrutinize the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. We are currently under audit by the United States Internal Revenue Service (IRS) for our fiscal years ended March 31, 2006, 2007 and 2008. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon these and other pending audits in the U.S. and other countries in which we do business. If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts ultimately prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. At December 31, 2009, the carrying value of our property and equipment totaled $495.1 million, which represented 20.3% of our total assets. This carrying value reflects the application of our property and equipment accounting policies, which incorporate estimates, assumptions and judgments relative to the useful lives of our property and equipment. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 5 to 7 years on manufacturing equipment, from 10 to 15 years on leasehold improvements and approximately 30 years on buildings.

We began production activities at Fab 4 on October 31, 2003. We began to depreciate the Fab 4 assets as they were placed in service for production purposes. As of December 31, 2009, all of the buildings and supporting facilities were being depreciated as well as the manufacturing equipment that had been placed in service. All manufacturing equipment that was not being used in production activities was maintained in projects in process and is not being depreciated until it is placed into service since management believes there will be no change to its utility from the present time until it is placed into productive service. The lives to be used for depreciating this equipment at Fab 4 will be evaluated at such time as the assets are placed in service. We do not believe that the temporary idling of such assets has impaired the estimated life or carrying values of the underlying assets.
The estimates, assumptions and judgments we use in the application of our property and equipment policies reflect both historical experience and expectations regarding future industry conditions and operations. The use of different estimates, assumptions and judgments regarding the useful lives of our property and equipment and expectations regarding future industry conditions and operations, could result in materially different carrying values of assets and results of operations.

**Impairment of Property, Plant and Equipment**

We assess whether indicators of impairment of long-lived assets are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, we recognize an impairment loss through a charge to our operating results to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value, which we depreciate over the remaining estimated useful life of the asset. We may incur impairment losses, or additional losses on already impaired assets, in future periods if factors influencing our estimates change.

**Junior Subordinated Convertible Debentures**

We separately account for the liability and equity components of our junior subordinated convertible debentures in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statements of operations. Additionally, certain embedded features of the debentures qualify as derivatives and are bundled as a compound embedded derivative that is measured at fair value. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price trigger or other contingent conversion feature has been met. We apply the treasury stock method as we have the intent and current ability to settle the principal amount of the junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average fair value of our common stock for a reporting period exceeds the conversion price per share which was $30.73 at December 31, 2009 and adjusts as dividends are recorded in the future.

**Litigation**

Our current estimated range of liability related to pending litigation is based on the probable loss of claims for which we can estimate the amount and range of loss. Recorded reserves were immaterial at December 31, 2009.

Because of the uncertainties related to both the probability of loss and the amount and range of loss on our pending litigation, we are unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

**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 December 31,</th>
<th>Nine Months Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Net sales</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>41.6%</td>
<td>45.5%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>58.4%</td>
<td>54.5%</td>
</tr>
<tr>
<td>Research and development</td>
<td>12.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>17.3%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Special charge</td>
<td>--</td>
<td>0.2%</td>
</tr>
<tr>
<td>Operating income</td>
<td>29.0%</td>
<td>21.1%</td>
</tr>
</tbody>
</table>

24
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 ongoing credit evaluations of our customers and generally require no collateral. In certain circumstances, a customer's financial condition may require collateral, and, in such cases, the collateral would be provided primarily by letters of credit.

Our net sales for the quarter ended December 31, 2009 were $250.1 million, an increase of 10.3% from the previous quarter's sales of $226.7 million, and an increase of 30.1% from net sales of $192.2 million in the quarter ended December 31, 2008. Our net sales for the nine months ended December 31, 2009 were $669.7 million, a decrease of 8.3% from net sales of $730.0 million in the nine months ended December 31, 2008. The increases in net sales in the quarter ended December 31, 2009 over the previous quarter, and over the quarter ended December 31, 2008, were due primarily to improving semiconductor industry conditions and market share gains in our strategic product lines. The decrease in net sales for the nine months ended December 31, 2009 compared to the nine months ended December 31, 2008, resulted primarily from adverse changes in global economic and end-market conditions across all of our product lines. Average selling prices for our products were down approximately 11% and 7% for the three and nine-month periods ended December 31, 2009 over the corresponding periods of the previous fiscal year. The number of units of our products sold was up approximately 44% and down approximately 2% for the three and nine-month periods ended December 31, 2009 over the corresponding periods of the previous fiscal year. The average selling prices and the unit volumes of our sales are impacted by the mix of our products sold and overall semiconductor market conditions. Key factors related to the amount of net sales during the three and nine-month periods ended December 31, 2009 include:

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

Sales by product line for the three and nine months ended December 31, 2009 and 2008 were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, (unaudited)</th>
<th>Nine Months Ended December 31, (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Microcontrollers</td>
<td>$202,416</td>
<td>$155,866</td>
</tr>
<tr>
<td>Memory products</td>
<td>21,182</td>
<td>17,341</td>
</tr>
<tr>
<td>Analog and interface products</td>
<td>26,501</td>
<td>18,959</td>
</tr>
<tr>
<td>Total sales</td>
<td>$250,099</td>
<td>$192,166</td>
</tr>
</tbody>
</table>

25
Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 80.9% of our total net sales for the three-month period ended December 31, 2009 and approximately 81.3% of our total net sales for the nine-month period ended December 31, 2009 compared to approximately 81.1% of our total net sales for the three-month period ended December 31, 2008 and approximately 80.9% of our total net sales for the nine-month period ended December 31, 2008.

Net sales of our microcontroller products increased approximately 29.9% in the three-month period ended December 31, 2009 and decreased approximately 7.8% in the nine-month period ended December 31, 2009 compared to the three and nine-month periods ended December 31, 2008. The sales increase in the three-month period ended December 31, 2009 over the same period last year resulted primarily from improving semiconductor industry conditions, market share gains and other factors described above. The sales decrease in the nine-month period over the same period last year were primarily due to adverse global economic conditions in the markets we serve and the other factors described above. The end markets that we serve include the consumer, automotive, industrial control, communications and computing 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 pricing pressure in certain microcontroller product lines, primarily due to competitive conditions. We have been able in the past, and expect to be able in the future, to moderate average selling price declines in our microcontroller product lines by introducing new products with more features and higher prices. We may be unable to maintain average selling prices for our microcontroller products as a result of increased pricing pressure in the future, which would adversely affect our operating results.

Memory Products

Sales of our memory products accounted for approximately 8.5% of our total net sales for each of the three and nine-month periods ended December 31, 2009 compared to approximately 9.0% of our total net sales for the three-month period ended December 31, 2008 and 10.1% of our total net sales in the nine-month period ended December 31, 2008.

Net sales of our memory products increased approximately 22.1% in the three-month period ended December 31, 2009 and decreased approximately 22.6% in the nine-month period ended December 31, 2009 compared to the three and nine-month periods ended December 31, 2008. The sales increase in the three-month period ended December 31, 2009 over the same period last year resulted primarily from improving semiconductor industry conditions. The sales decrease in the nine-month period over the same period last year were driven primarily by adverse global economic conditions leading to reduced customer demand within the Serial EEPROM market which products comprise substantially all of our memory product net sales.

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. We have experienced, and expect to continue to experience, varying degrees of competitive pricing pressures in our Serial EEPROM products. We may be unable to maintain the average selling prices of our Serial EEPROM products as a result of increased pricing pressure in the future, which could adversely affect our operating results.

Analog and Interface Products

Sales of our analog and interface products accounted for approximately 10.6% of our total net sales for the three-month period ended December 31, 2009 and 10.2% of our total net sales for the nine-month period ended December 31, 2009 compared to approximately 9.9% of our total net sales for the three-month period ended December 31, 2008 and 9.0% of our total net sales for the nine-month period ended December 31, 2008.

Net sales of our analog and interface products increased approximately 39.8% in the three-month period ended December 31, 2009 and 3.7% in the nine-month period ended December 31, 2009 compared to the three and nine-month periods ended December 31, 2008. These sales increases were driven primarily by improving semiconductor industry conditions and market share gains achieved within the analog and interface market.
Analog and interface products can be proprietary or non-proprietary in nature. Currently, we consider more than half 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. 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 will continue to increase over time.

Distribution

Distributors accounted for approximately 60% of our net sales in the three-month period ended December 31, 2009 and approximately 66% of our net sales in the three-month period ended December 31, 2008. Distributors accounted for approximately 61% of our net sales in the nine-month period ended December 31, 2009 and approximately 64% of our net sales in the nine-month period ended December 31, 2008.

Our largest distributor accounted for approximately 12% of our net sales in each of the three and nine-month periods ended December 31, 2009. Our largest distributor accounted for approximately 14% of our net sales in the three-month period ended December 31, 2008, and approximately 13% of our net sales in the nine-month period ended December 31, 2008.

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

At December 31, 2009, our distributors maintained 40 days of inventory of our products compared to 35 days at March 31, 2009. Over the past three fiscal years, the days of inventory maintained by our distributors have fluctuated between 31 days and 42 days. We do not believe that inventory holding patterns at our distributors will materially impact our net sales, due to the fact that we recognize revenue based on sell-through for all our distributors.

Sales by Geography

Sales by geography for the three and nine-month periods ended December 31, 2009 and 2008 were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, (unaudited)</th>
<th>Nine Months Ended December 31, (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>%</td>
</tr>
<tr>
<td>Americas</td>
<td>$ 59,311</td>
<td>23.7%</td>
</tr>
<tr>
<td>Europe</td>
<td>60,059</td>
<td>24.0%</td>
</tr>
<tr>
<td>Asia</td>
<td>130,729</td>
<td>52.3%</td>
</tr>
<tr>
<td>Total sales</td>
<td>$ 250,099</td>
<td>100.0%</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 U.S., Canada, Central America and South America.

Sales to foreign customers accounted for approximately 78% and 77% of our net sales in the three and nine-month periods ended December 31, 2009, respectively, compared to 74% in the three-month period ended December 31, 2008 and 76% in the nine-month period ended December 31, 2008. Substantially all of our foreign sales are U.S. Dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their manufacturing operations to Asia and growth in demand from the emerging Asian market. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.
Gross Profit

Our gross profit was $146.0 million in the three months ended December 31, 2009 and $104.8 million in the three months ended December 31, 2008. Our gross profit was $365.8 million in the nine months ended December 31, 2009 and $432.5 million in the nine months ended December 31, 2008. Gross profit as a percentage of sales was 58.4% in the three months ended December 31, 2009 and 54.5% in the three months ended December 31, 2008. Gross profit as a percentage of sales was 54.6% in the nine months ended December 31, 2009 and 59.3% in the nine months ended December 31, 2008.

The most significant factors affecting our gross profit percentage in the periods covered by this Quarterly Report on Form 10-Q were:

· production levels being below the range of our normal capacity resulting in under absorption of fixed costs; and
· continual cost reductions in wafer fabrication and assembly and test manufacturing, such as new manufacturing technologies and more efficient manufacturing techniques.

Other factors that impacted gross profit percentage in the periods covered by this Quarterly Report on Form 10-Q include:

· inventory write-downs partially offset by sales of inventory that was previously written down;
· lower depreciation as a percentage of cost of sales; and
· fluctuations in the product mix of microcontrollers, proprietary and non-proprietary analog products and Serial EEPROM products resulting in lower overall average selling prices for our products.

During the three-month period ended December 31, 2009, we operated at significantly higher levels of capacity utilization compared to the levels in the three-month period ended December 31, 2008. We adjust our capacity utilization as required to respond to actual and anticipated business and industry-related conditions. We operated at or above normal capacity levels, which we typically consider to be the range of 90 to 95% of the actual capacity of the installed equipment during fiscal 2007, fiscal 2008 and the first half of fiscal 2009. However, during the third and fourth quarters of fiscal 2009, we reduced wafer starts at both Fab 2 and Fab 4 and implemented rotating unpaid time off at both fabrication facilities. The reduction in wafer starts and rotating unpaid time off were implemented to help control inventory levels due to adverse economic conditions in the markets we serve. Reduced levels of production continued into the third quarter of fiscal 2010, however, we increased the production output from our wafer fabs in the second and third quarters of fiscal 2010 to support increasing demand for our products and during the latter part of the third quarter of fiscal 2010, we operated our wafer fabs at close to peak levels. During the fourth quarter of fiscal 2010, we expect our wafer fabs to operate at high levels with no under-absorption of fixed costs.

As a result of reductions in demand and decreased production in our wafer fabs, approximately $1.7 million and $22.3 million was charged to cost of sales in the three and nine-month periods ended December 31, 2009, as our production levels for the periods were below the range of normal capacity. In the three-month period ended December 31, 2008, approximately $6.5 million was charged to cost of sales as a result of decreased production levels. In the future, if production levels are below normal capacity, we will charge cost of sales for the unabsorbed capacity.

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

Our overall inventory levels were $112.8 million at December 31, 2009 compared to $131.5 million at March 31, 2009. We had 99 days of inventory on our balance sheet at December 31, 2009 compared to 134 days at March 31, 2009 and 143 days at December 31, 2008. The reduction of our inventory levels was a result of our efforts to manage inventory through this period of adverse global economic conditions and was impacted by net sales levels in the most recent quarters exceeding our initial expectations when entering those periods. Our inventory levels at December 31, 2009 were at the low end of the range we have experienced over the past three years. Our goal is to grow our inventory balances to more normalized levels over time.
We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog and interface and memory products and the percentage of net sales of each of these products in a particular quarter, as well as manufacturing yields, fixed cost absorption, and competitive and economic conditions in the markets we serve.

At December 31, 2009, approximately 67% of our assembly requirements were being performed in our Thailand facility, compared to approximately 75% at December 31, 2008. The percentage of our assembly work that is performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry and our internal capacity constraints. Third-party contractors located in Asia perform the balance of our assembly operations. Substantially all of our test requirements were being performed in our Thailand facility as of December 31, 2009 and December 31, 2008. We believe that the assembly and test operations performed at our Thailand facility provide us with significant cost savings when compared to contractor assembly and test costs, as well as increased control over these portions of the manufacturing process.

We rely on outside wafer foundries for a portion of our wafer fabrication requirements.

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

Research and Development (R&D)

R&D expenses for the three months ended December 31, 2009 were $30.3 million, or 12.1% of net sales, compared to $27.0 million, or 14.0% of net sales, for the three months ended December 31, 2008. R&D expenses for the nine months ended December 31, 2009 were $87.5 million, or 13.0% of net sales, compared to $89.9 million, or 12.3% of net sales for the nine months ended December 31, 2008. We are committed to investing in new and enhanced products, including development systems software, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. R&D costs are expensed as incurred. Assets purchased to support our ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their expected useful lives. R&D expenses include labor, depreciation, masks, prototype wafers, and expenses for the development of process technologies, new packages, and software to support new products and design environments.

R&D expenses increased $3.4 million, or 12.5%, for the three months ended December 31, 2009 over the same period last year. R&D expenses decreased $2.3 million, or 2.6%, for the nine months ended December 31, 2009 over the same period last year. The primary reasons for the dollar increase over the three-month periods were higher salary and bonus costs related to restoring previous reductions in compensation programs due to improving business conditions. The primary reasons for the dollar decrease in R&D costs over the nine-month periods were cost-cutting actions that began in the second half of fiscal 2009, including broad-based reductions in salary and other compensation levels, lower travel costs, and reductions in other variable expenses, offset by higher salary and bonus costs in the three months ended December 31, 2009.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended December 31, 2009 were $43.1 million, or 17.3% of net sales, compared to $36.8 million, or 19.2% of net sales, for the three months ended December 31, 2008. Selling, general and administrative expenses for the nine months ended December 31, 2009 were $120.5 million, or 18.0% of net sales, compared to $127.9 million, or 17.5% of net sales, for the nine months ended December 31, 2008. Selling, general and administrative expenses include salary and other 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 FAEs 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 $6.3 million, or 17.0%, for the three months ended December 31, 2009 over the same period last year. Selling, general and administrative expenses decreased $7.4 million, or 5.8%, for the nine months ended December 31, 2009 over the same period last year. The primary reasons for the dollar increase over the three-month periods were higher salary and bonus costs related to restoring previous reductions in compensation programs due to improving business conditions. The primary reasons for the dollar decrease in selling, general and administrative costs over the nine-month periods were cost-cutting actions that began in the second half of fiscal 2009, including broad-based reductions in salary and other compensation levels, lower travel costs, and reductions in other variable expenses, offset by higher salary and bonus costs in the three months ended December 31, 2009.

Special Charges

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

On October 15, 2008, we announced the acquisition of Hampshire Company, a leader in the large format touch screen controller market. As a result of the acquisition, we incurred a $0.5 million in-process research and development charge in the third quarter of fiscal 2009.

Other Income (Expense)

Interest income in the three-month period ended December 31, 2009 decreased to $4.9 million from $7.4 million in the three-month period ended December 31, 2008. Interest income in the nine-month period ended December 31, 2009 decreased to $12.7 million from $27.8 million in the nine-month period ended December 31, 2008. The primary reason for the reductions in interest income was lower interest rates applying to our invested cash balances in the three and nine-month periods ended December 31, 2009 compared to the prior year periods. Interest expense related to our 2.125% junior subordinated convertible debentures in the three and nine-month periods ended December 31, 2009 was $7.8 million and $23.3 million, respectively, compared to $7.1 million and $21.6 million, respectively, in the three and nine-month periods ended December 31, 2008. Other income, net in the three-month period ended December 31, 2009 was $0.1 million compared to other expense, net of $20.4 million in the three-month period ended December 31, 2008. Other income, net in the nine-month period ended December 31, 2009 was $7.9 million compared to other expense, net of $16.0 million in the nine-month period ended December 31, 2008. The increase in other income, net in the three-month period ended December 31, 2009 over the same period last year primarily relates to a $19.3 million loss on trading securities during the three months ended December 31, 2008 as a result of market fluctuations in our trading securities and put options as described in Note 4 to our condensed consolidated financial statements. The increase in other income, net in the nine-month period ended December 31, 2009 over the same period last year primarily relates to a $7.5 million gain on trading securities during the nine months ended December 31, 2009 as a result of market fluctuations in the value of our trading securities and put options and sales of trading securities as described in Note 4 to our condensed consolidated financial statements.

Provision for Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate of 0.7% for the three-month period ended December 31, 2009 and 8.2% for the nine-month period ended December 31, 2009. We had an effective tax rate benefit of 254.7% for the three-month period ended December 31, 2008 and 9.4% for the nine-month period ended December 31, 2008. Our effective tax rates for the three and nine months ended December 31, 2009 were higher than our effective tax rates for the three and nine months ended December 31, 2008, and lower than the statutory rates in the U.S. for the three and nine months ended December 31, 2009 and 2008, primarily due to IRS audit settlements in these periods and a favorable clarification of tax regulations in the three and nine months ended December 31, 2008. Additionally, our effective tax rate is lower than statutory rates in the U.S. due to our mix of earnings in foreign jurisdictions with lower tax rates. See Note 10 to our condensed consolidated financial statements for additional information on our tax items.
Various taxing authorities in the U.S. and other countries in which we do business are increasing their scrutiny of the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. We are currently under audit by the IRS for our fiscal years ended March 31, 2006, 2007 and 2008. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon these and other pending audits in the U.S. and other countries in which we do business. If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts ultimately prove to be less than any final assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

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

Liquidity and Capital Resources

We had $1,499.6 million in cash, cash equivalents and short-term and long-term investments at December 31, 2009, an increase of $58.8 million from the March 31, 2009 balance. The increase in cash, cash equivalents and short-term and long-term investments over this time period is primarily attributable to cash generated from operating activities being offset by dividend payments in the nine months ended December 31, 2009.

Net cash provided from operating activities was $344.0 million for the nine-month period ended December 31, 2009 compared to $264.6 million for the nine-month period ended December 31, 2008. The increase in cash flow from operations in the nine-month period ended December 31, 2009 compared to the nine-month period ended December 31, 2008 was primarily due to sales of trading securities, which provided approximately $87.0 million of operating cash flow in the nine-month period ended December 31, 2009, compared to sales and purchases of trading securities which used $79.3 million of operating cash flow in the nine-month period ended December 31, 2008, offset by the decline in net income from $233.6 million to $141.3 million.

During the nine months ended December 31, 2009, net cash used in investing activities was $263.1 million. During the nine months ended December 31, 2008, net cash used in investing activities was $89.3 million. The increase in net cash used in investing activities was primarily due to changes in our net purchases, sales and maturities of short-term and long-term investments, offset by lower capital expenditures in the nine-month period ended December 31, 2009.

Net cash used in financing activities was $166.0 million for the nine months ended December 31, 2009 compared to net cash used in financing activities of $271.8 million for the nine months ended December 31, 2008. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were $18.6 million for the nine months ended December 31, 2009 and $26.5 million for the nine months ended December 31, 2008. We paid cash dividends to our stockholders of $186.6 million in the nine months ended December 31, 2009 and $184.8 million in the nine months ended December 31, 2008. We did not repurchase any of our shares of common stock during the nine months ended December 31, 2009. We purchased 4.0 million shares of our common stock for $123.9 million during the nine months ended December 31, 2008. Excess tax benefits from share-based payment arrangements were $2.1 million in the nine months ended December 31, 2009 and $10.5 million in the nine months ended December 31, 2008.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the nine months ended December 31, 2009 were $28.4 million compared to $91.8 million for the nine months ended December 31, 2008. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately $60 million during the next twelve months to invest in equipment and facilities to maintain, and selectively increase, capacity to meet our currently anticipated needs.
We expect to finance capital expenditures through our existing cash balances and cash flows from operations. We believe that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient manufacturing capacity to meet our currently anticipated needs.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations has had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency rates in countries where we conduct operations will not adversely affect our operating results in the future. At December 31, 2009, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to an additional 10.0 million shares of our common stock in the open market or in privately negotiated transactions. As of December 31, 2009, we had repurchased 7.5 million shares under this 10.0 million share authorization for a total of $234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of December 31, 2009, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to an additional 10.0 million shares of our common stock in the open market or in privately negotiated transactions. As of December 31, 2009, we had repurchased 7.5 million shares under this 10.0 million share authorization for a total of $234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of December 31, 2009, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to an additional 10.0 million shares of our common stock in the open market or in privately negotiated transactions. As of December 31, 2009, we had repurchased 7.5 million shares under this 10.0 million share authorization for a total of $234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of December 31, 2009, we held approximately 34.6 million shares as treasury shares.

On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. A quarterly dividend of $0.34 per share was paid on December 2, 2009 in the aggregate amount of $62.5 million. A quarterly dividend of $0.341 per share was declared on February 3, 2010 and will be paid on March 4, 2010 to stockholders of record as of February 18, 2010. We expect the aggregate March 2010 cash dividend to be approximately $62.9 million. Our Board of Directors is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board of Directors. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions and our results of operations.

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

**Contractual Obligations**

There have not been any material changes in our contractual obligations from what we disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

**Off-Balance Sheet Arrangements**

As of December 31, 2009, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

**Recently Issued Accounting Pronouncements**

**Business Combinations.** On April 1, 2009, we adopted new accounting guidance for business combinations as issued by the FASB. The new accounting guidance establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from previous guidance resulting from this new guidance include the expansion of the definitions of a “business” and a “business combination.” For all business combinations (whether partial, full or step acquisitions),
the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and; for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. The new accounting guidance also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. Because the majority of the provisions of the new accounting guidance are applicable to future transactions, the adoption of this guidance did not have a material impact on our consolidated financial statements.

On April 1, 2009, we adopted new accounting guidance for assets acquired and liabilities assumed in a business combination as issued by the FASB. The new guidance amends the provisions previously issued by the FASB related to the initial recognition and measurement, subsequent measurement and accounting and disclosures for assets and liabilities arising from contingencies in business combinations. The new guidance eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

Transfers of Financial Assets. In June 2009, the FASB issued guidance that changes the information a reporting entity provides in its financial statements about the transfer of financial assets and continuing interests held in transferred financial assets. The standard amends previous accounting guidance by removing the concept of qualified special purpose entities. This accounting standard is effective for us for transfers occurring on or after April 1, 2010. We do not expect the adoption of this accounting standard to have a material effect on our consolidated financial statements and related disclosures.

Variable Interest Entities. In June 2009, the FASB issued guidance to change financial reporting by enterprises involved with variable interest entities (VIEs). The standard replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with an approach focused on identifying which enterprise has the power to direct the activities of a VIE and the obligation to absorb losses of the entity or the right to receive the entity's residual returns. This accounting standard is effective for us beginning April 1, 2010. We do not expect the adoption of this accounting standard to have a material effect on our consolidated financial statements and related disclosures.

Multiple Element Arrangements. In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. This guidance is effective for us beginning April 1, 2011, but may be early adopted if we so choose. We are currently evaluating the impact of this accounting guidance on our consolidated financial statements.

Certain Revenue Arrangements that include Software Elements. In September 2009, the FASB issued new accounting guidance related to certain revenue arrangements that include software elements. Previously, companies that sold tangible products with "more than incidental" software were required to apply software revenue recognition guidance. This guidance often delayed revenue recognition for the delivery of the tangible product. Under the new guidance, tangible products that have software components that are "essential to the functionality" of the tangible product will be excluded from the software revenue recognition guidance. The new guidance includes factors to help companies determine what is "essential to the functionality." Software-enabled products will now be subject to other revenue guidance including that for multiple deliverable arrangements issued by the FASB in September 2009. This guidance is effective for us beginning April 1, 2011, but may be early adopted if we so choose. We are currently evaluating the impact of this accounting guidance on our consolidated financial statements.
Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investment portfolio, consisting of fixed income securities, money market funds, and cash deposits that we hold on an available-for-sale basis, was $1,471.2 million as of December 31, 2009 compared to $1,318.3 million as of March 31, 2009, and our trading securities totaled $29.2 million as of December 31, 2009 compared to $122.5 million as of March 31, 2009. The available-for-sale securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize any material adverse impact in income or cash flows if market interest rates increase.

At December 31, 2009, $43.2 million of the fair value of our investment portfolio was invested in ARS. Historically, the carrying value of ARS approximated due to the frequent resetting of the interest rates. If an auction fails for amounts we have invested, our investment will not be liquid. With the continuing liquidity issues experienced in the global credit and capital markets, our ARS have experienced multiple failed auctions. In September 2007 and February 2008, auctions for $24.9 million and $34.8 million, respectively, of the original purchase value of our investments in ARS had failed. While we continue to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for a portion of these ARS no longer approximates the original purchase value.

At December 31, 2009, the $24.9 million of ARS that failed during September 2007 carried ratings between A- and CCC by Standard & Poors compared to ratings between A- and CC at September 30, 2009. All but $2.5 million of the securities possess credit enhancement in the form of insurance for principal and interest. The underlying characteristics of $22.4 million of these ARS relate to servicing statutory requirements in the life insurance industry and $2.5 million relate to a specialty finance company. Subsequent to our investment in these ARS, the ARS have experienced multiple rating downgrades by the major rating agencies. All such rating change actions have been factored into the fair value estimates of the ARS for the period ending December 31, 2009.

The $24.9 million in failed auctions noted above have continued to fail through the filing date of this Quarterly Report on Form 10-Q. As a result, we will not be able to access such funds until a future auction on these investments is successful. The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on future market conditions. We evaluated the impairments in the value of these ARS and determined our intent to sell these securities prior to the recovery of our amortized cost basis which resulted in the securities being other-than-temporarily impaired, and we have recognized an impairment charge on these investments of $0.5 million and $2.2 million, respectively, in the three and nine months ended December 31, 2009.

At December 31, 2009, the $34.8 million of ARS that failed during February 2008 are investments in student loan-backed ARS. Approximately $2.7 million and $2.9 million of these ARS were redeemed at par by the issuers in the first nine months of fiscal 2010 and fiscal 2009, respectively, reducing our overall position to $29.2 million. Based upon our evaluation of available information, we believe these investments are of high credit quality, as all of the investments carry AAA credit ratings by one or more of the major credit rating agencies and are largely backed by the federal government (Federal Family Education Loan Program). The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on future market conditions. If the issuers are not able to successfully close future auctions or over time are not able to obtain more favorable financing options for their debt issuance needs, including refinancing these obligations into lower rate securities, the market value of these investments could be negatively impacted.

In November 2008, we executed an ARS rights agreement (the Rights) with the broker through which we purchased the $29.2 million in ARS that provides (1) us with the right to put these ARS back to the broker at par anytime during the period from June 30, 2010 through July 2, 2012, and (2) the broker with the right to purchase or sell the ARS at par on our behalf anytime through July 2, 2012. We accounted for the acceptance of the Rights as the receipt of a put option for no consideration and recognized a gain with a corresponding recognition as a long-term investment. We elected to measure the Rights at fair value and will record changes in the fair value of the Rights in earnings, as the Rights do not provide for net settlement and therefore are not otherwise marked to fair value as derivatives. We simultaneously recognized an other-than-temporary impairment loss of $5.5 million.
as we no longer intend to hold these ARS until the fair value recovers, which was recorded in other comprehensive loss in prior quarters. We have reclassified the ARS from available-for-sale to trading securities and future changes in fair value are being recorded in earnings. During the third quarter of fiscal 2010, we estimated the fair value of the ARS decreased by $0.2 million offset by an increase in the fair value of the related Rights of $0.2 million, with no net impact to our income statement. We expect any future changes in the fair value of the ARS to be largely offset by changes in the fair value of the related Rights without any significant net impact to our income statement. We will continue to measure the ARS and the Rights at fair value (utilizing Level 3 inputs) until the earlier of its maturity or exercise.

We continue to monitor the market for ARS and consider its impact, if any, on the fair market value of our investments. If the market conditions deteriorate further, we may be required to record additional impairment charges. We intend to sell the $24.9 million of ARS. We intend and have the ability to hold the $29.2 million of ARS until June 30, 2010 when we have the right to sell the auction rates at par to the broker. We do not anticipate having to sell these securities to fund the operations of our business. We believe that, based on our current unrestricted cash, cash equivalents and short-term investment balances, the current lack of liquidity in the credit markets will not have a material impact on our liquidity, cash flow or ability to fund our operations.

We had no investments in marketable equity securities at December 31, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended, we evaluated under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2009, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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 our public guidance or the expectations of public market analysts and investors, which would likely have a negative effect on the price of our common stock. Adverse global economic conditions have adversely impacted our operating results and make comparability between periods less meaningful.

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

The manufacture and assembly of integrated circuits, particularly non-volatile, erasable CMOS memory and logic devices such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used, the performance of our wafer fabrication personnel and equipment, and other quality issues. As is
typical in the semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at approximately the current levels. This could include delays in the recognition of revenue, loss of revenue or future orders, and customer-imposed penalties for failure to meet contractual shipment deadlines. Our operating results are also adversely affected when we operate at less than optimal capacity. In the quarter ended March 31, 2009, we reduced wafer starts in both Fab 2 and Fab 4, implemented rotating unpaid time off and had multiple planned shutdowns in our Thailand facility to help control inventory levels in response to adverse economic conditions. This lower capacity utilization resulted in certain costs being charged directly to expense and lower gross margins. In the quarter ended December 31, 2009, we increased our production output in our factories and did not have any shutdowns in our Thailand operation and reduced the amount of rotating unpaid time off in Fab 2 and Fab 4. In the March 2010 quarter, we expect to return to a more optimal level of capacity utilization.

We are dependent on orders that are received and shipped in the same quarter and are therefore limited in our 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 measure turns orders at the beginning of a quarter based on the orders needed to meet the shipment targets that we set entering the quarter. Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduce our backlog visibility on future product shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times. Because turns orders are difficult to predict, varying levels of turns orders make 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 revenue targets, our revenue and operating results may suffer.

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

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

- the quality, performance, reliability, features, ease of use, pricing and diversity of our products;
- our success in designing and manufacturing new products including those implementing new technologies;
- the rate at which customers incorporate our products into their own applications;
- 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 rights;
- our ability to address the needs of our customers; and
- general market and economic conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller and proprietary analog 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, modest pricing declines in certain of our more mature proprietary product lines, primarily due to competitive conditions. We have been able to moderate average selling price declines in many of our proprietary product lines by continuing to introduce new products with more features and higher prices. However, there can be no assurance that we will be able to do so in the future. We have experienced in the past, and expect to continue to experience in the future, varying degrees of competitive pricing pressures in our Serial EEPROM and non-proprietary analog products. We may be unable to maintain average selling prices for our products as a result of increased pricing pressure in the future, which could adversely impact our operating results.
Our business is dependent on selling through distributors.

Sales through distributors accounted for approximately 64% of our net sales in fiscal 2009 and approximately 61% of our net sales in the first nine months of fiscal 2010. Our largest distributor accounted for approximately 14% of our net sales in fiscal 2009 and approximately 12% of our net sales in the first nine months of fiscal 2010. We do not have long-term agreements with our distributors and we and our distributors may each terminate our relationship with little or no advance notice.

Adverse conditions in the U.S. and global economies and in the U.S. and global credit markets could materially impact the operations of our distributors. Any deterioration in the financial condition of our distributors or any disruption in the operations of our distributors could adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry and/or economic downturn, it is possible there will be an oversupply of products and a decrease in sell-through of our products by our distributors which could reduce our net sales in a given period and result in an increase in inventory returns.

Recent credit market conditions have adversely impacted our holdings of auction rate securities.

At December 31, 2009, $43.2 million of the fair value of our investment portfolio was invested in ARS. Historically, the carrying value of ARS approximated fair value due to the frequent resetting of the interest rates. With the continuing liquidity issues in the global credit markets, our ARS have experienced multiple failed auctions. As a result, we will not be able to access such funds until a future auction on these investments is successful. In November 2008, we executed an ARS rights agreement (the Rights) with the broker through which we purchased the $29.2 million in ARS that provides (1) us with the right to put these ARS back to the broker at par anytime during the period from June 30, 2010 through July 2, 2012, and (2) the broker with the right to purchase or sell the ARS at par on our behalf anytime through July 2, 2012. We accounted for the acceptance of the Rights as the receipt of a put option for no consideration and recognized a gain with a corresponding recognition as a long-term investment. We will record changes in the fair value of the Rights in earnings, as the Rights do not provide for net settlement and therefore are not otherwise marked to fair value as derivatives. We simultaneously recognized an other-than-temporary impairment loss of $5.5 million as we no longer intend to hold the ARS to a time where the fair value recovers, which was recorded in other comprehensive loss in prior quarters. We have reclassified the ARS from available-for-sale to trading securities and future changes in fair value will be recorded in earnings. We expect any future changes in the fair value of the ARS to be largely offset by changes in the fair value of the related Rights without any significant net impact to our income statement. We will continue to measure the ARS and the Rights at fair value (utilizing Level 3 inputs) until the earlier of its maturity or exercise.

The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on future market conditions. Based on the estimated values, we concluded these investments were other than temporarily impaired and recognized an impairment charge on these investments of $0.5 million and $2.2 million, respectively, in the three and nine months ended December 31, 2009. If the issuers are unable to successfully close future auctions or if their credit ratings deteriorate further, we may be required to further adjust the carrying value of the investments through an additional impairment charge to earnings.

The substantial majority of our short and long-term investments are in highly rated government agency bonds and municipal bonds. Other than with respect to our holdings of ARS, we have not experienced any liquidity or impairment issues with such investments. However, the credit markets have continued to be highly volatile and there can be no assurance that these conditions will not in the future adversely affect the liquidity or value of our investments in government agency bonds or municipal bonds.
Our success depends on our ability to introduce new products on a timely basis. Our future operating results will depend 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 our new product introductions depends on various factors, including, but not limited to:

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

Because our products are complex, we have experienced delays from time to time in completing 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 adversely impact our future operating results.

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

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

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

We are dependent on several contractors to perform key manufacturing functions for us.

We use several contractors located in Asia for a portion of the assembly and testing of our products. We also rely on outside wafer foundries for a portion of our wafer fabrication. Although we own the majority of our manufacturing resources, the disruption or termination of any of our contractors could harm our business and operating results.

Our use of third parties 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 contractor were to experience financial, operations or production difficulties or situations when demand exceeds capacity, or if they were unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels, or if due to their locations in foreign countries they were to experience political upheaval or infrastructure disruption. Further, procurement of required products and services from third parties is done by purchase order and contracts. If these third parties are unable or unwilling to timely deliver products or services conforming to our quality standards, we may not be able to qualify additional manufacturing sources for our products in a timely manner or at all, and such arrangements, if any, may not be on favorable terms to us. In such event, we could experience an interruption in production, an increase in manufacturing and production costs, decline in product reliability, and our business and operating results could be adversely affected.

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

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Since a significant portion of our revenue is from consumer markets and international sales, our business may be subject to seasonally lower revenues in the third and fourth quarters of our fiscal year. However, fluctuations in our overall business in certain recent periods, semiconductor industry conditions and global economic conditions have had a more significant impact on our results than seasonality, and have made it difficult to assess the impact of seasonal factors on our business. The industry has also experienced significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclically by selling proprietary products that cannot be easily or quickly replaced to a geographically diverse base of customers across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions. In particular, our business and operating results have been adversely impacted by global economic conditions.

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

We are currently, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from customers from time to time who believe that we owe them indemnification or other obligations related to infringement claims made against the customers by third parties. These legal proceedings and claims, whether with or without merit, could result in substantial cost to us and divert our resources. If we are not able to resolve a claim, settle a matter, obtain necessary licenses on commercially reasonable terms, reengineer our products or processes to avoid infringement, and/or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take an appropriate charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, and our business, financial condition or results of operations could be harmed.

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

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

Because the systems into which our products are integrated have a higher cost of goods than the products we sell, these expenses and damages may be significantly higher than the sales and profits we received from the products involved. While we specifically exclude consequential damages in our standard terms and conditions, our ability to avoid such liabilities may be limited by applicable law. We do have liability insurance which covers damages arising out of product defects, but we do not expect that insurance will cover all claims or be of a sufficient amount to fully protect against such claims. Costs or payments we may make in connection with these customer claims may adversely affect the results of our operations.
Further, we sell to customers in industries such as automotive, aerospace, and medical, where failure of the systems in which our products are integrated could cause damage to property or persons. We may be subject to claims if our products, or interactions with our products, cause the system failures. We will face increased exposure to claims if there are substantial increases in either the volume of our sales into these applications or the frequency of system failures integrating our products.

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

Our ability to obtain patents, licenses and other intellectual property rights covering our products and manufacturing processes is important for our success. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our 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 ourselves initiate interference proceedings in the U.S. Patent and Trademark Office and foreign patent offices, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S. Infringement of our intellectual property rights by a third party could result in uncompensated lost market and revenue opportunities for us.

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

We regularly review the financial performance of our customers, distributors and suppliers. However, global economic conditions may adversely impact the financial viability of our customers, distributors or suppliers. The financial failure of a large customer or distributor, an important supplier, or a group thereof, could have an adverse impact on our operating results and could result in us not being able to collect our accounts receivable balances.

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

We do not typically enter into long-term contracts with our customers and we cannot be certain about future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. Even though we have over 60,000 customers and our ten largest direct customers made up approximately 10% of our total revenue for the nine months ended December 31, 2009, cancellation of customer contracts could have an adverse financial impact on our revenue and profits.

Further, as the practice has become more commonplace in the industry, we have entered into contracts with certain customers that differ from our standard terms of sale. Under these contracts we commit to supply quantities of products on scheduled delivery dates. If we become unable to supply the customer as required under the contract, the customer may incur additional production costs, lost revenues due to subsequent delays in their own manufacturing schedule, or quality related issues. Under these contracts, we may be liable for the costs the customer has incurred. While we try to limit such liabilities, if they should arise, there may be a material adverse impact on our results of operation and financial condition.

Business interruptions could harm our business.

Operations at any of our facilities, or at any of our wafer fabrication or assembly and test subcontractors, may be disrupted for reasons beyond our control, including work stoppages, power loss, incidents of terrorism or security risk, political instability, public health issues, telecommunications, transportation or other infrastructure failure, fire, earthquake, floods, or other natural disasters. If operations at any of our facilities, or our subcontractors' facilities are interrupted, we may not be able to shift production to other facilities on a timely basis. If this occurs, we would likely experience delays in shipments of products to our customers and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues and profits and the cancellation of orders or loss of customers. 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 fiscal 2009, approximately 75% of our net sales were made to foreign customers. During the first nine months of fiscal 2010, approximately 77% 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 product assembly and testing facilities located near Bangkok, Thailand, which has experienced periods of political uncertainty in the past. We also use various foreign contractors for a portion of our assembly and testing and for a portion of our wafer fabrication requirements. Substantially all of our finished goods inventory is maintained in Thailand.

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

- political, social and economic instability;
- public health conditions;
- 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;
- 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/or our operating results could suffer.

Fluctuations in foreign currency could impact our operating results. We use forward currency exchange contracts to reduce the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the value of our non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

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

We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant system or network disruption, including but not limited to new system implementations, computer viruses, security breaches, or energy blackouts could have a material adverse impact on our operations, sales and operating results. We have implemented measures to manage our risks related to such disruptions, but such disruptions could still occur and negatively impact our operations and financial results. In addition, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

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

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

We must comply with many different federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous substances used in our products and manufacturing processes. Our failure to comply with applicable regulations could result in the imposition of fines, suspension of production, cessation of operations or future liabilities. Such environmental regulations have required us in the past and could require us in the future to acquire costly equipment or to incur other significant expenses to comply with such regulations.

Over the past several years, there has been an expansion in environmental laws focusing on reducing or eliminating hazardous substances in electronic products. The European Union and countries such as the U.S., China and Korea, have enacted or may enact such laws or regulations. These and other future environmental regulations could require us to reengineer certain of our existing products and may make it more expensive for us to manufacture and sell our products. In addition, over the last several years, the number and complexity of laws focused on the energy efficiency of electronic products and accessories; the recycling of electronic products; and the reduction in quantity and the recycling of packaging materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may not have sufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may also have to write off inventory in the event that we hold inventory that is not saleable as a result of changes to regulations. We expect these risks and trends to continue. In addition, we anticipate increased customer requirements to meet voluntary criteria related to the reduction or elimination of hazardous substances in our products and energy efficiency measures.

Sustained adverse climate change poses both regulatory and physical risks that could harm our results of operations or affect the way we conduct our business.

Any sustained adverse change in climate could have a direct adverse economic impact on us such as water shortages or higher costs for water or to control the temperature inside of our facilities. In addition to these direct costs, adverse climate change could require us to implement climate change mitigation programs and comply with new regulations such as limitations on emissions. These items could significantly increase our costs and restrict our manufacturing operations by virtue of requirements for new equipment, the purchase of emissions allowances, funding offset projects and the like. We also see the potential for higher energy costs driven by climate change regulations as our costs are likely to increase if utility companies are able to pass on their costs, such as those associated with carbon taxes, emission cap and trade programs, or renewable portfolio standards.

Certain of our operations are located in tropical regions, such as Thailand. Some environmental experts predict that these regions may become vulnerable to storms, floods and droughts due to climate change. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, we cannot be certain that our plans will protect us from all such disasters or events.

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

A significant portion of our sales are made outside of the U.S. through the exporting and re-exporting of products. In addition to local jurisdictions' export regulations, our U.S.-manufactured products or products based on U.S. technology are subject to Export Administration Regulations (EAR) when exported and re-exported to and from international jurisdictions. Licenses or proper license exceptions may be required for the shipment of our products to certain countries. Non-compliance with EAR or other export regulations can result in penalties including denial of export privileges, fines, criminal penalties, and seizure of products. Such penalties could have a material adverse effect on our business including our ability to meet our net sales and earnings targets.

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

We are subject to examination of our income tax returns by the IRS and other tax authorities for fiscal 2006 and later. We are currently being audited by the IRS for fiscal 2006 through fiscal 2008. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2002 and later. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuing examinations will not have an adverse effect on our future operating results.

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

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

- quarterly variations in our operating results 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;
- changes in our financial guidance or our failure to meet such guidance;
- any acquisitions we pursue or complete;
- general conditions in the semiconductor industry; and
- global economic and financial conditions.

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

In the event we make acquisitions, we may not be able to successfully integrate such acquisitions or attain the anticipated benefits of such transactions and such acquisitions could have a negative impact on our future operating results.

We may consider strategic acquisitions if such opportunities arise, such as our recently announced acquisition of Silicon Storage Technology, Inc. Any transactions that we consider may involve a number of risks including the diversion of our management's attention from our existing business or possible adverse effects on our operating results during the integration process for those transactions that we complete. Such acquisitions could require us to take certain one-time charges to our operating results and also could result in future charges to operating results if the acquisitions don't achieve their expected benefits. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage any newly acquired operations or employees. We may not be able to maintain uniform standards, controls, procedures and policies, which may lead to operational inefficiencies.

Our financial condition and results of operations could be adversely affected if we do not effectively manage our liabilities.

As a result of our sale of $1.15 billion of 2.125% junior subordinated convertible debentures in December 2007, we have a substantially greater amount of long-term debt than we have maintained in the past. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance all or a portion of our debentures or any other future indebtedness that we incur on or before the maturity of the debentures. There can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.
Conversion of our debentures will dilute the ownership interest of existing stockholders, including holders who had previously converted their debentures.

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

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

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

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

Currently, a majority of our revenue is generated from customers located outside the U.S., and a substantial portion of our assets, including employees, are located outside the U.S. Present U.S. income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain of our non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. In fiscal 2009, President Obama's administration announced initiatives that would substantially reduce our ability to defer U.S. taxes including repealing the deferral of U.S. taxation of foreign earnings, eliminating utilization of or substantially reducing our ability to claim foreign tax credits, and eliminating various tax deductions until foreign earnings are repatriated to the U.S. If any of these proposals become law, they could have a material negative impact on our financial position and results of operations.

Item 6. Exhibits

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>2.1</td>
<td>Agreement and Plan of Merger, dated as of February 2, 201, by and among Microchip Technology Incorporated, Sun Acquisition Corporation and Silicon Storage Technology, Inc. (1)</td>
</tr>
<tr>
<td>31.1</td>
<td>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</td>
</tr>
<tr>
<td>32</td>
<td>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</td>
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</tbody>
</table>

This agreement has been included to provide information regarding its terms and is not intended to provide any other factual information about Silicon Storage Technology, Inc. (“SST”) and contains representations and warranties of each of SST, Microchip Technology Incorporated and Merger Sub. The assertions embodied in those representations and warranties were made for purposes of the merger agreement and are subject to qualifications and limitations agreed to by the respective parties in connection with negotiating the terms of the merger agreement, including information contained in confidential disclosure schedules that the parties exchanged in connection with signing the merger agreement. Accordingly, you should not rely on such representations and warranties as characterizations of the actual state of facts or circumstances, since they were only made as of a specific date and are modified in important part by the underlying disclosure schedules. In addition, certain representations and warranties may be subject to a contractual standard of materiality different from what might be viewed as material to you, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters of fact. Moreover, information concerning the subject matter of such representations and warranties may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in our public disclosures.
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: February 9, 2010

By: /s/ J. Eric Bjornholt

J. Eric Bjornholt
Vice President and Chief Financial Officer
(Duly Authorized Officer, and
Principal Financial and Accounting Officer)
AGREEMENT AND PLAN OF MERGER

by and among

MICROCHIP TECHNOLOGY INCORPORATED

SUN ACQUISITION CORPORATION

and

SILICON STORAGE TECHNOLOGY, INC.

February 2, 2010
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Exhibit A  Form of Articles of Merger
Exhibit B  Form of Amended and Restated Articles of Incorporation of the Surviving Corporation

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of February 2, 2010 (this “Agreement”), by and among Silicon Storage Technology, Inc., a California corporation (the “Company”), Microchip Technology Incorporated, a Delaware corporation (“Parent”), and Sun Acquisition Corporation, a California corporation and wholly-owned subsidiary of Parent (“Merger Sub”).

WHEREAS, the boards of directors of Merger Sub and Parent have approved, and have determined that it is advisable and in the best interests of their respective shareholders to consummate, the acquisition of the Company by Parent and Merger Sub upon the terms and subject to the conditions set forth herein;

WHEREAS, the Company Board, acting upon the recommendation of the Strategic Committee, has approved this Agreement and recommended approval and adoption of this Agreement by the shareholders of the Company;

WHEREAS, the Company Board, acting upon the recommendation of the Strategic Committee, has determined that the terms of this Agreement constitute a Superior Proposal (as defined in the Agreement and Plan of Merger, dated as of November 13, 2009, by and among Technology Resources Holdings, Inc., Technology Resources, Inc. and the Company (the “Prior Agreement”), the Company, the Company Board and the Strategic Committee have taken all such actions as are necessary, advisable and proper to terminate the Prior Agreement, and the Prior Agreement has been validly terminated and is no longer in force or effect;

WHEREAS, concurrently with the execution and delivery of this Agreement, the Company has paid $4,025,875 to Technology Resources Holdings, Inc. in full satisfaction of the Termination Fee and any Parent Expenses (each, as defined in the Prior Agreement); and

WHEREAS, the acquisition of the Company by Parent shall be effected through the Merger of Merger Sub with and into the Company in accordance with the terms of this Agreement and the CCC, as a result of which the Company shall become wholly-owned by Parent.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I
DEFINITIONS AND TERMS

Section 1.1 Definitions

As used in this Agreement, the following terms have the meanings set forth below:

“Acceptable Confidentiality Agreement” means an executed confidentiality and standstill agreement, the benefits of the terms of which, if more favorable to the other party to such confidentiality and standstill agreement than those in place with Parent, shall be extended to Parent.
“Acquisition Proposal” means any proposal or offer (including any proposal from or to the Company’s shareholders) from any Person or group of Persons other than Parent or Merger Sub or any Affiliate thereof relating to (1) any direct or indirect acquisition of (A) more than 10% of the assets of the Company and its consolidated Subsidiaries, taken as a whole, or (B) more than 10% of any class of equity securities of the Company; (2) any tender offer or exchange offer, within the meaning of the Exchange Act, that if consummated would result in any Person or group of Persons beneficially owning 10% or more of any class of equity securities of the Company or its Subsidiaries; or (3) any merger, consolidation, business combination, joint venture, recapitalization, liquidation, dissolution or other similar transaction involving the Company or its Subsidiaries.

“Action” has the meaning set forth in Section 6.7(b).

“Affiliate” means, with respect to a specified Person, any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the such specified Person.

“Agreement” has the meaning set forth in the Preamble.

“Alternative Acquisition Agreement” has the meaning set forth in Section 6.4(b).

“Antitrust Laws” has the meaning set forth in Section 6.10(b).

“Antitrust Order” has the meaning set forth in Section 6.10(b).

“Articles of Merger” has the meaning set forth in Section 2.2.

“Book Entry Shares” has the meaning set forth in Section 2.6(b).

“Business Day” means a day other than a Saturday, a Sunday or another day on which commercial banking institutions in New York, New York are authorized or required by Law to be closed.

“CCC” means the California Corporations Code, as amended.

“Certificates” has the meaning set forth in Section 2.6(b).

“Change of Recommendation” has the meaning set forth in Section 6.4(c).

“Cleanup” means all actions required, under applicable Environmental Laws, to clean up, remove, treat, remediate or otherwise address Hazardous Materials.

“Closing” has the meaning set forth in Section 2.3.

“Closing Date” has the meaning set forth in Section 2.3.

“Common Stock” has the meaning set forth in Section 2.6(a).

“Company” has the meaning set forth in the Preamble.

“Company Benefit Plans” has the meaning set forth in Section 4.8(a).

“Company Board” means the board of directors of the Company.

“Company Disclosure Schedule” means the disclosure schedule delivered by the Company to Parent immediately prior to the execution of this Agreement.


“Company Material Adverse Effect” means any material adverse change in, or material adverse effect on, the business, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole; provided, however, that none of the following shall constitute or be taken into consideration in determining whether there has occurred, and no change, event, occurrence or effect resulting from, attributable to or arising out of any of the following shall constitute, a Company Material Adverse Effect:

(a) a change in general economic, political or financial market conditions, including interest or exchange rates, which does not have a materially disproportionate effect on the Company relative to other industry participants;

(b) a change in the industries, or in the business conditions in the geographic regions, in which the Company and its Subsidiaries operate which does not have a materially disproportionate effect on the Company relative to other industry participants;

(c) the announcement of this Agreement (including any cancellation of or delays in customer orders or work for clients, any reductions in sales, any disruption in licensor, vendor, partner or similar relationships or any loss of employees resulting therefrom);

(d) acts of war, terrorism or sabotage, military actions or the escalation thereof;

(e) changes in GAAP or changes in the interpretation of GAAP, or changes in the accounting rules and regulations of the SEC;

(f) any action expressly contemplated by this Agreement or taken at the request of or with the consent of Parent or Merger Sub;

(g) any litigation brought or threatened by shareholders of the Company (whether on behalf of the Company or otherwise) asserting allegations of breach of fiduciary duty or violations of securities Laws or otherwise arising from the announcement of this Agreement or the consummation of the Merger;
(h) any adoption, implementation, promulgation, repeal, modification, reinterpretation or proposal of any Law after the date hereof;

(i) in and of itself, any decrease in the market price or trading volume of the Common Stock (it being understood that the foregoing shall not prevent Parent from asserting that any underlying cause of such decrease independently constitutes such a Company Material Adverse Effect);

(j) in and of itself, any failure by the Company to meet any projections, forecasts or revenue or earnings predictions (it being understood that the foregoing shall not prevent Parent from asserting that any underlying cause of such failure independently constitutes such a Company Material Adverse Effect); or

(k) any item set forth on the Company Disclosure Schedules as of the date hereof.

“Company Participants” has the meaning set forth in Section 4.8.

“Company Recommendation” has the meaning set forth in Section 6.8 (a).

“Company SEC Reports” has the meaning set forth in Section 4.5.

“Company Shareholder Approval” has the meaning set forth in Section 4.3.

“Company Shareholders Meeting” has the meaning set forth in Section 4.3.

“Company Voting Proposal” has the meaning set forth in Section 4.3.

“Confidentiality Agreement” has the meaning set forth in Section 6.3(b).

“Contract” means any note, bond, mortgage, indenture, instrument, guarantee, commitment, lease, license, contract, agreement or other consensual obligation.

“Dissenting Shares” has the meaning set forth in Section 3.8.

“Effective Time” has the meaning set forth in Section 2.2.

“Employee” has the meaning set forth in Section 4.15.

“Environmental Claim” means any claim, notice, directive, action, cause of action, investigation, suit, demand, abatement order or other similar action or order by a Governmental Entity alleging liability arising out of, based on, or resulting from (a) the release of any Hazardous Materials at any location, or (b) circumstances forming the basis of any violation of any Environmental Law.

“Environmental Laws” means all applicable and legally enforceable Laws relating to pollution or protection, investigation or restoration of the environment, human health and safety, or natural resources, including Laws relating to releases or threatened releases of Hazardous Materials and the manufacture, processing, distribution, use, treatment, storage, release, transport, handling or disposal of Hazardous Materials.
“ERISA” has the meaning set forth in Section 4.8.


“Exchange Agent” has the meaning set forth in Section 3.1(a).

“Exchange Fund” has the meaning set forth in Section 3.1(b).

“Financial Statements” has the meaning set forth in Section 4.5.

“GAAP” has the meaning set forth in Section 4.5.

“Governmental Entity” has the meaning set forth in Section 4.4.

“Hazardous Materials” means any substance, material or waste which is listed, defined, designated or classified by any Governmental Entity or Environmental Law as a “hazardous waste,” “hazardous material,” “hazardous substance,” “extremely hazardous waste,” “restricted hazardous waste,” “contaminant,” “toxic waste” or “toxic substance” under any provision of Environmental Law including all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. § 300.5.

“HLHZ” has the meaning set forth in Section 4.21.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“Indemnified Parties” has the meaning set forth in Section 6.7(b).

“Insurance Policies” has the meaning set forth in Section 4.16.

“Intellectual Property” means (a) patents, patent applications, patent disclosures and inventions, (b) trademarks, service marks, trade names, trade dress, logos, corporate names and Internet domain names, together with the goodwill associated exclusively therewith, (c) mask works and copyrights and copyrightable works, including copyrights in computer software, (d) registrations and applications for registration of any of the foregoing in (a)-(c), and (e) trade secrets.

“Intervening Event” has the meaning set forth in Section 6.4(c).

“IRS” means the U.S. Internal Revenue Service.

“knowledge” means such facts and other information that as of the date of determination are actually known to, (i) in the case of the Company and its Subsidiaries, Bing Yeh, Yaw Wen Hu, James Boyd, Chen Tsai, Paul Lui, Derek Best, Douglas Lee, Sirak Brook, Bertrand Cambou and Mark Reiten, and (ii) in the case of the Parent or Merger Sub, Steve Sanghi and Ganes Moorthy.
“Law” means any federal, state, local, municipal or foreign constitution, law, statute, ordinance, regulation, code, treaty, judgment, order, decree, injunction, arbitration award, franchise, license, agency requirement or permit of any Governmental Entity.

“Leases” has the meaning set forth in Section 4.7(a).

“Letter of Transmittal” has the meaning set forth in Section 3.2(a).

“Liability” means any liability, whether known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, due or to become due, including liability for Taxes.

“License-In Agreements” has the meaning set forth in Section 4.11(b).

“Liens” means any charge, claim, community property interest or similar equitable interest, lien, option, pledge, security interest, right of first refusal, encumbrance or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

“Material Contracts” has the meaning set forth in Section 4.7(a).

“Merger” has the meaning set forth in Section 2.1.

“Merger Consideration” has the meaning set forth in Section 2.6(a).

“Merger Sub” has the meaning set forth in the Preamble.

“Net Option” has the meaning set forth in Section 2.7.

“Notice Period” has the meaning set forth in Section 6.4(c).

“Option” has the meaning set forth in Section 2.7.

“Ordinary Course of Business” means an action taken by a Person will be deemed to have been taken in the Ordinary Course of Business only if that action is consistent with the past practices of such Person and is taken in the ordinary course of the normal operations of such Person.

“Organizational Documents” means the articles of incorporation and bylaws, or other equivalent organizational documents, of an entity.

“Parent” has the meaning set forth in the Preamble.

“Parent Expenses” has the meaning set forth in Section 8.3(a).

“Parent Material Adverse Effect” means any material adverse change in, or material adverse effect on the ability of Parent or Merger Sub to consummate the transactions contemplated hereby (including having sufficient funds to pay the aggregate Merger Consideration and Per Share Option Consideration and other fees and expenses of Parent and Merger Sub).
“Parent Plans” has the meaning set forth in Section 6.5(c).

“Per Share Option Consideration” has the meaning set forth in Section 2.7.

“Permitted Liens” means licenses granted by the Company to third parties in the Ordinary Course of Business.

“Person” means any natural person or any corporation, partnership, limited liability company, association, trust or other entity or organization, including any Governmental Entity.

“Pre-Closing Period” has the meaning set forth in Section 6.1(a).

“Proxy Statement” has the meaning set forth in Section 4.17(a).

“Representatives” has the meaning set forth in Section 6.3(a).

“Rights Agreement” has the meaning set forth in Section 4.24.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Strategic Committee” means the strategic committee of the Company Board.

“Subsidiary” means, as to any Person, any corporation, partnership, limited liability company, association or other business entity (i) of which such Person directly or indirectly owns securities or other equity interests representing more than 50% of the aggregate voting power, (ii) of which such Person possesses more than 50% of the right to elect directors or Persons holding similar positions, or (iii) that such Person controls directly or indirectly through one or more intermediaries.

“Superior Proposal” means any Acquisition Proposal, which was obtained in compliance with Section 6.4, made by a third party, that the Company Board or the Strategic Committee determines in good faith, after consultation with its financial advisor and legal counsel, (i) is fully financed or reasonably capable of being financed but not contingent on the availability of financing, (ii) is capable of being consummated, taking into account all legal, financial, regulatory and other aspects of such Acquisition Proposal, including the Person or group of related Persons making the proposal and after taking into account compliance by the Company with this Agreement, and (iii) would, if consummated, result in a transaction more favorable to the Company’s shareholders from a financial point of view than the transactions contemplated hereby (including any proposal by Parent to amend the terms of this Agreement); provided, that for purposes of this definition of “Superior Proposal,” the references to “10%” in the definition of Acquisition Proposal shall be deemed to be references to “50%”.

“Surviving Corporation” has the meaning set forth in Section 2.1.

“Tax Return” means any report, return (including any information return), statement, schedule, notice, form, declaration, claim for refund or other document or information filed with or submitted to, or required to be filed with or submitted to, any taxing authority or jurisdiction (U.S. or foreign) in connection with the determination, assessment, collection or payment of any Tax.
“Taxes” means any and all taxes, charges, fees, levies, assessments, tariffs or duties of any kind whatsoever, including income, gross receipts, excise, real or personal property, sales, withholding, social security, occupation, use, service, service use, value added, license, net worth, payroll, franchise, transfer and recording taxes, fees and charges, imposed by any taxing authority (whether U.S. or foreign including any state, local or foreign government or any subdivision or taxing agency thereof (including a U.S. possession)), whether computed on a separate, consolidated, unitary, combined or any other basis; and such term shall include any interest, penalties, addition or additional amounts attributable to, or imposed upon, or with respect to, any such taxes, charges, fees, levies, assessments, tariffs, charges or duties, or payable under any tax-sharing agreement or any other Contract.

“Termination Date” has the meaning set forth in Section 8.1(b)(i).

“Termination Fee” has the meaning set forth in Section 8.3(b).

“United States” means the United States of America.

“WARN Act” has the meaning set forth in Section 4.8(c).

Section 1.2 Other Definitional Provisions; Interpretation.

(a) The words “hereof,” “herein” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and references to articles, sections, paragraphs, exhibits and schedules are to the articles, sections and paragraphs of, and exhibits and schedules to, this Agreement, unless otherwise specified.

(b) Whenever “include,” “includes” or “including” is used in this Agreement, such word shall be deemed to be followed by the phrase “without limitation.”

(c) Words describing the singular number shall be deemed to include the plural and vice versa, words denoting any gender shall be deemed to include all genders and words denoting natural persons shall be deemed to include business entities and vice versa.

(d) Terms defined in the text of this Agreement as having a particular meaning have such meaning throughout this Agreement, except as otherwise indicated in this Agreement.

ARTICLE II

THE MERGER

Section 2.1 The Merger

Subject to the terms and conditions of this Agreement and in accordance with the CCC, at the Effective Time, the Company and Merger Sub shall consummate a merger (the “Merger”) pursuant to which (i) Merger Sub shall merge with and into the Company and the separate corporate existence of Merger Sub shall thereupon cease, (ii) the Company shall be the surviving corporation (the “Surviving Corporation”) in the Merger, and (iii) the corporate existence of the Company shall continue unaffected by the Merger. The Merger shall, from and after the Effective Time, have the effects set forth in Section 1107 of the CCC and other applicable Law.
Section 2.2 Effective Time

Parent, Merger Sub and the Company shall cause articles of merger in substantially the form attached hereto as Exhibit A (the "Articles of Merger") to be delivered on the Closing Date (or on such other date as Parent and the Company may agree in writing) to the Secretary of State of the State of California for filing as provided in the CCC, and shall make all other deliveries, filings or recordings required by the CCC in connection with the Merger. The Merger shall become effective on the date on which the Articles of Merger are filed by the Secretary of State of the State of California, or on such other later date as is agreed upon by the parties and specified in the Articles of Merger, and at the time specified in the Articles of Merger or, if not specified therein, by the CCC, and such time on such date of effectiveness is hereinafter referred to as the "Effective Time."

Section 2.3 Closing

The closing of the Merger (the "Closing") will take place at 10:00 A.M., Pacific Time, on a date to be specified by the parties, which shall be no later than two Business Days after satisfaction or waiver of all of the conditions set forth in Article VII hereof (other than conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing), at the offices of Shearman & Sterling LLP, 525 Market Street, San Francisco, California, unless another time, date or place is agreed to in writing by the parties hereto (such date on which the Closing is to take place being the "Closing Date").

Section 2.4 Articles of Incorporation and By-Laws of the Surviving Corporation

The articles of incorporation of the Company, as in effect immediately prior to the Effective Time, shall at the Effective Time be amended and restated in full to read as set forth in Exhibit B and as so amended and restated shall be the articles of incorporation of the Surviving Corporation, until thereafter amended as provided by Law and such articles of incorporation. The by-laws of the Surviving Corporation shall, as of the Effective Time, be amended and restated in their entirety to be the same as the by-laws of Merger Sub, as in effect immediately prior to the Effective Time, except as to the name of the Surviving Corporation, which shall be Silicon Storage Technology, Inc., until thereafter amended as provided by Law, the articles of incorporation of the Surviving Corporation and such by-laws.

Section 2.5 Directors and Officers of the Surviving Corporation

The directors of Merger Sub, as of immediately prior to the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors shall have been duly elected or appointed or qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation’s Organizational Documents. The officers of the Company at the Effective Time shall, from and after the Effective Time, be the initial officers of the Surviving Corporation until their successors shall have been duly elected or appointed or qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation’s Organizational Documents.
Section 2.6 Effect on Capital Stock

. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the holders of any of the following securities:

(a) Conversion of Common Stock. Except as otherwise provided herein, each share of the Company’s common stock, no par value per share (the “Common Stock”), issued and outstanding immediately prior to the Effective Time (other than shares to be canceled pursuant to Section 2.6(c) and Dissenting Shares) shall be converted into the right to receive, upon the Effective Time, $2.85 in cash (the “Merger Consideration”).

(b) Cancellation of Common Stock. As of the Effective Time, each share of Common Stock converted into the right to receive the Merger Consideration pursuant to Section 2.6(a) shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of a certificate which immediately prior to the Effective Time represented any such shares of Common Stock not represented by certificates (“Book Entry Shares”) and the holders of certificates that, immediately prior to the Effective Time, represented shares of outstanding Common Stock (“Certificates”) shall cease to have any rights with respect thereto, except the right to receive, upon surrender of such Book-Entry Shares or Certificates in accordance with Article III, the Merger Consideration, without any interest thereon, for each such share of Common Stock held by them.

(c) Cancellation of Treasury Stock and Parent-Owned Stock. Each share of Common Stock held in the treasury of the Company and each share of Common Stock owned or held, directly or indirectly, by the Company or its Subsidiaries or Parent, Merger Sub or their respective Subsidiaries, in each case immediately prior to the Effective Time, shall be canceled and retired without any conversion thereof and no consideration shall be delivered in exchange therefor.

(d) Capital Stock of Merger Sub. Each share of capital stock, par value $0.001 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one fully paid and non-assessable share of the same class and series of capital stock, no par value, of the Surviving Corporation.

(e) Adjustment. If at any time between the date of this Agreement and the Effective Time any change in the number of outstanding shares of Common Stock shall occur as a result of a reclassification, recapitalization, stock split (including a reverse stock split), or combination, exchange or readjustment of shares, or any stock dividend or stock distribution with a record date during such period, the amount of the Merger Consideration as provided in Section 2.6(a) shall be equitably adjusted to reflect such change.

Section 2.7 Treatment of Options
. Each outstanding option or other right to purchase Common Stock (whether vested or unvested) under a Company Equity Plan (an "Option") shall be cancelled and all rights with respect thereto shall cease to exist, and, in consideration for the cancellation of such Option, the holder of any such Option (if the Merger Consideration is greater than the exercise price per share of the Common Stock of such Option) will be entitled to receive, subject to any required withholding of Taxes, an amount equal to the product of (x) the number of shares of Common Stock subject to such Option held by the holder of the Option, and (y) the excess of the Merger Consideration over the exercise price per share of Common Stock subject to the Option as set forth in such Option (the amount in clause (y) divided by the number in clause (x) above, the "Per Share Option Consideration") (all such Options to which the amount calculated in this sentence is a positive number, the "Net Options"). No Merger Consideration will be due to a holder of an Option in respect of its termination if the amount calculated in the immediately preceding sentence is a negative number. Parent shall pay, or cause the Surviving Corporation to pay, any amounts due pursuant to this Section 2.7 as soon as reasonably practicable, and in any event within five Business Days, after the Effective Time.

ARTICLE III

EXCHANGE AND PAYMENT

Section 3.1 Exchange Agent; Payment Funds.

(a) Appointment of Exchange Agent

. Prior to the Effective Time, Parent shall appoint a bank or trust company as is approved by the Company (which approval shall not be unreasonably withheld) as exchange and paying agent (the "Exchange Agent") for the exchange and payment of the Merger Consideration.

(b) Merger Consideration. At or prior to the Effective Time, Parent shall deposit with the Exchange Agent in trust for the benefit of holders of shares of Common Stock, an amount in cash sufficient to make all payments pursuant to Section 3.2 assuming no Dissenting Shares. Any cash deposited with the Exchange Agent in trust for the benefit of holders of shares of Common Stock shall hereinafter be referred to as the "Exchange Fund".

(c) The Exchange Fund shall be invested by the Exchange Agent as directed by Parent or the Surviving Corporation; provided, however, that any such investments shall be in money market mutual or similar funds having assets in excess of $10,000,000,000. Earnings on the Exchange Fund shall be the sole and exclusive property of Parent and the Surviving Corporation and shall be paid to Parent or the Surviving Corporation, as Parent directs. No investment or loss of the Exchange Fund shall relieve Parent, the Surviving Corporation or the Exchange Agent from promptly making the payments required by this Article III, and following any losses from any such investment, Parent shall promptly provide additional funds to the Exchange Agent in the amount of such losses, which additional funds will be deemed to be part of the Exchange Fund.

Section 3.2 Exchange Procedures.

(a) Promptly after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record of Certificates or Book Entry Shares whose shares were converted into the right to receive Merger Consideration pursuant to Section 2.6 (A) a letter of transmittal and instructions, the form and substance of which shall be substantially as
reasonably agreed to by the Company and Parent and prepared prior to the Closing (the “Letter of Transmittal”), which shall specify that delivery shall be effected, and risk of loss with respect to the Certificates or Book-Entry Shares shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu thereof) or Book-Entry Shares to the Exchange Agent, and (B) instructions for effecting the surrender of such Certificates or Book-Entry Shares, as applicable, in exchange for the Merger Consideration.

(b) Upon surrender of a Certificate or Book-Entry Share to the Exchange Agent together with such Letter of Transmittal, duly executed and completed in accordance with the instructions thereto, the holder of such Certificate or Book-Entry Share shall be entitled to receive promptly in exchange therefor the Merger Consideration for each share of Common Stock formerly represented by such Certificate or Book-Entry Share and such Certificate or Book-Entry Share shall then be canceled.

(c) No interest will be paid or will accrue for the benefit of holders of the Certificates on the Merger Consideration payable upon the surrender of the Certificates or Book-Entry Shares. In the event of a transfer of ownership of Common Stock which is not registered in the transfer records of the Company, payment of the Merger Consideration may be made with respect to such Common Stock to such a transferee if the Certificate or Book-Entry Shares formerly representing such shares of Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that all applicable stock transfer taxes have been paid or are not applicable.

Section 3.3 No Further Ownership Rights in Company Stock

. The Merger Consideration paid upon conversion of each share of Common Stock in accordance with the terms of Article II and this Article III shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of Common Stock. Subject to Section 3.6, if any Certificates or Book-Entry Shares shall not have been surrendered prior to one year after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration in respect to such Certificate or Book-Entry Shares would otherwise escheat to or become the property or any Governmental Entity), any such cash shall, to the extent permitted by applicable Law, become property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto. If, after the Effective Time, subject to the terms and conditions of this Agreement, Certificates or Book-Entry Shares formerly representing shares of Common Stock are presented to the Surviving Corporation, they shall be cancelled and exchanged for the Merger Consideration in accordance with this Article III.

Section 3.4 Termination of Exchange Fund

. Any portion of the Exchange Fund that remains unclaimed by the holders of Certificates or Book-Entry Shares for one year after the Effective Time shall be delivered to the Surviving Corporation or otherwise on the instruction of the Surviving Corporation, and any holders of the Certificates or Book-Entry Shares who have not theretofore complied with this Article III shall thereafter look only to the Surviving Corporation and Parent for the Merger Consideration with respect to the shares of Common Stock formerly represented thereby to which such holders are entitled pursuant to Section 2.6 and Section 3.2.
Section 3.5 No Liability

None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any Person in respect of any Merger Consideration from the Exchange Fund properly delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

Section 3.6 Lost Certificates

If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the provision of an indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the aggregate Merger Consideration with respect to the shares of Common Stock formerly represented thereby.

Section 3.7 Stock Transfer Books

At the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers of shares of Company Stock thereafter on the records of the Company. From and after the Effective Time, the holders of Certificates and Book-Entry Shares shall cease to have any rights with respect to such shares of Common Stock formerly represented thereby, except for the right to receive the Merger Consideration pursuant to the terms hereof. On or after the Effective Time, any Certificates and Book-Entry Shares presented with a Letter of Transmittal to the Exchange Agent or Parent for any reason shall be exchanged for the aggregate Merger Consideration with respect to the shares of Common Stock formerly represented thereby.

Section 3.8 Shares of Dissenting Shareholders

Notwithstanding anything in this Agreement to the contrary, shares of Common Stock issued and outstanding immediately prior to the Effective Time that are held by any holder who has not voted in favor of the Merger and who has properly demanded that the Company purchase such shares in accordance with Chapter 13 of the CCC ("Dissenting Shares") shall not be converted into or exchangeable for the right to receive the Merger Consideration, unless and until such holder shall have failed to perfect, or shall have effectively withdrawn or lost, such holder’s rights as a holder of Dissenting Shares under the CCC. Holders of Dissenting Shares shall be entitled only to such rights as are granted by Chapter 13 of the CCC. If any holder of Dissenting Shares effectively withdraws or loses (through failure to perfect or otherwise) his or her right to dissent under Chapter 13 of the CCC at or prior to the Effective Time, each such share of Common Stock of such holder shall thereupon be converted into and become exchangeable only for the right to receive, as of the later of the Effective Time and the time that such right to demand of payment has been irrevocably lost, withdrawn or expired, the Merger Consideration in accordance with Section 2.6 and Section 3.2. The Company shall serve prompt notice to Parent of any demands for payment of any Shares pursuant to Chapter 13 of the CCC.
ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as disclosed in the Company Disclosure Schedule (with the information and disclosures contained in any section or subsection of the Company Disclosure Schedule deemed to be disclosure with respect to any other section or subsection of the Company Disclosure Schedule to which the applicability or relevance of such disclosure is reasonably apparent based on the substance of the disclosure), the Company represents and warrants to Parent and Merger Sub as follows:

Section 4.1 Organization

Each of the Company and its Subsidiaries is a corporation or other entity duly organized and validly existing under the laws of the jurisdiction of its incorporation or organization and has the requisite entity power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Each of the Company and its Subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it makes such qualification or licensing necessary, and has obtained all licenses, permits, franchises and other governmental authorizations necessary to the ownership or operation of its properties or the conduct of its business except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Company Material Adverse Effect. The Company has made available to Parent a copy of all Organizational Documents of the Company and its Subsidiaries, as currently in effect, and neither the Company nor any Subsidiary is in violation of any provision of such Organizational Documents.

Section 4.2 Capitalization

(a) The authorized capital stock of the Company consists of (i) 250,000,000 shares of Common Stock, no par value, (x) 95,854,157 of which are issued and outstanding as of the date of this Agreement, (y) 7,979,385 of which are reserved for issuance upon the exercise of outstanding Options as of the date of this Agreement, and (z) 8,285,960 of which are reserved for issuance and available for future grant under the Company Equity Plans as of the date of this Agreement, and (ii) 7,000,000 shares of preferred stock of the Company, 450,000 of which are designated Series A Junior Participating Preferred Stock, no par value per share, none of which are issued or outstanding on the date of this Agreement. All of the outstanding shares of the Company’s capital stock are duly authorized, validly issued, fully paid, non-assessable and free of preemptive rights or any similar rights, and were issued in compliance with applicable federal and state securities laws and regulations. All shares of the Company’s capital stock subject to issuance on the terms and conditions set forth in the Options pursuant to which they are issuable, will, when issued in accordance with the terms of such instruments, be duly authorized, validly issued, fully paid and non-assessable, and will not be subject upon issuance to, nor issued in violation of, any preemptive rights or any similar rights, and will be issued in compliance with applicable federal and state securities Laws and regulations. As of the date hereof, other than pursuant to the Company Equity Plans, there are no existing (i) options, warrants, calls, subscriptions or other rights, convertible securities, agreements or commitments of any character obligating the Company or any of its Subsidiaries to issue, transfer or sell any shares
of capital stock or other equity interest in, the Company or any of its Subsidiaries, (ii) contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any capital stock of the Company or any of its Subsidiaries, or (iii) voting trusts or similar agreements to which the Company is a party with respect to the voting of the capital stock of the Company.

(b) All of the outstanding shares of capital stock or equivalent equity interests of each of the Company’s Subsidiaries are owned of record and beneficially, directly or indirectly, by the Company free and clear of all Liens other than any transfer restrictions of general applicability as may be provided under the Securities Act and the “blue sky” Laws of the various States of the United States.

(c) Neither the Company nor any of its Subsidiaries own any interest or investment (whether equity or debt) in any corporation, partnership, joint venture, trust or other entity, other than a Subsidiary of the Company.

Section 4.3 Authorization; Validity of Agreement; Company Action

The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to obtaining the affirmative vote for approval of the principal terms of the Merger and adoption of this Agreement and the transactions contemplated hereby by the holders of a majority of the outstanding shares of Common Stock (the “Company Shareholder Approval”) on the record date for the meeting of the Company’s shareholders (the “Company Shareholders Meeting”) to consider the approval of the principal terms of the Merger and adoption of this Agreement under the CCC (“Company Voting Proposal”), to perform its obligations and consummate the transactions contemplated hereby. The Strategic Committee has determined that the transactions contemplated hereby are advisable and fair to and in the best interests of the Company and its shareholders and has recommended that the full Company Board approve this Agreement and the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by the Company Board (acting upon the unanimous recommendation of the Strategic Committee), and no other corporate action on the part of the Company is necessary to authorize the execution and delivery by the Company of this Agreement, except for the Company Shareholder Approval of the Company Voting Proposal. This Agreement has been duly executed and delivered by the Company and is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except that such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws, now or hereafter in effect, affecting creditors’ rights and remedies generally. The Company Board, acting upon the recommendation of the Strategic Committee, has determined that the terms of this Agreement constitute a Superior Proposal (as defined in the Prior Agreement), the Company, the Company Board and the Strategic Committee have taken all actions necessary to terminate the Prior Agreement in accordance with its terms, and the Prior Agreement has been validly terminated and is no longer in force or effect. The Company has paid $4,025,875 to Technology Resources Holdings, Inc. pursuant to Section 8.3 of the Prior Agreement.
Section 4.4 Consents and Approvals; No Violations

. (a) The execution and delivery of this Agreement by the Company do not, and the performance by the Company of this Agreement and, subject to the Company Shareholder Approval of the Company Voting Proposal, the consummation by the Company of the transactions contemplated hereby will not, (i) violate any provision of the Organizational Documents of the Company, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the material terms, conditions or provisions of any Material Contract to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets is bound, (iii) violate any Law applicable to the Company, any of its Subsidiaries or any of their properties or assets that could result in a material Liability to the Company or its Subsidiaries, taken as a whole, or (iv) other than in connection with or compliance with (A) the CCC, (B) requirements under other state corporation Laws, (C) the HSR Act and any applicable antitrust and competition Laws of jurisdictions other than the United States, (D) Nasdaq rules and listing standards, and (E) the Exchange Act, require the Company or any of its Subsidiaries, as applicable, to make any filing or registration with or notification to, or require the Company or any of its Subsidiaries, as applicable, to obtain any authorization, consent or approval of, any court, legislative, executive or regulatory authority or agency (a “Governmental Entity”).

Section 4.5 SEC Reports

. The Company has filed all reports and other documents with the SEC required to be filed or furnished by the Company since December 31, 2006 (such documents, together with any reports filed during such period by the Company with the SEC on a voluntary basis on Form 8-K, the “Company SEC Reports”). As of their respective filing dates, the Company SEC Reports (i) complied in all material respects with, to the extent in effect at the time of filing, the applicable requirements of the Securities Act and the Exchange Act, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) of the Company included in the Company SEC Reports (“Financial Statements”) complied at the time it was filed as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto in effect at the time of such filing, were prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) (except, in the case of unaudited statements, as permitted by the rules and regulations of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended (subject, in the case of unaudited statements, to normal year-end adjustments).

Section 4.6 No Undisclosed Liabilities

. Except for (a) Liabilities incurred in the Ordinary Course of Business since December 31, 2008, (b) Liabilities disclosed in the Balance Sheet contained in the Financial Statements included in the Company’s Form 10-Q filed November 9, 2009 with SEC for the quarter ended September 30, 2009, (c) Liabilities incurred in connection with the Merger or otherwise as contemplated by this Agreement, and (d) Liabilities that are not material to the Company and its Subsidiaries, taken as a whole, since September 30, 2009, neither the Company nor any of its Subsidiaries has incurred any Liabilities.
Section 4.7 Material Contracts.

(a) Section 4.7 of the Company Disclosure Schedule sets forth a list of all of the Material Contracts as of the date hereof and, prior to the date hereof, the Company has made available to Parent true copies of each Material Contract and summaries of all oral Company Contracts. For purposes of this Agreement, the term “Material Contracts” shall mean with respect to the Company or any of its Subsidiaries: (i) all Contracts required to be disclosed pursuant to Item 601(b)(10) of Regulation S K of the SEC; and (ii) to the extent not included in the foregoing: (A) all Contracts for the future purchase or sale (in each case whether by merger, acquisition, purchase of an equity interest or otherwise) or lease of materials, supplies, merchandise, equipment or other personal property or assets which will involve consideration in excess of $500,000 in the aggregate or for the grant of any preferential right for any such future purchase, sale or lease; (B) all Contracts for the furnishing or receipt of services, the performance of which will involve consideration in excess of $500,000 in the aggregate; (C) all Contracts for the license of any Intellectual Property of the Company or its Subsidiaries to a third party entered into by the Company or its Subsidiaries; (D) all mortgages, pledges, conditional sales contracts, security agreements, factoring agreements or other similar agreements with respect to any assets of the Company which involve consideration in excess of $500,000 in the aggregate; (E) all non competition or similar Contracts which restrict in any material respect the geographic or operational scope of the business of the Company and its Subsidiaries, taken as a whole or the ability of the Company and its Subsidiaries, taken as a whole, to enter into new lines of business; (F) all Contracts relating to borrowed money or other indebtedness; (G) all material distribution, joint venture, partnership, marketing, development or franchise Contracts; (H) all Contracts by which the Company or its Subsidiaries guarantee, endorse or otherwise become or are contingently liable for the debt, obligation or other liability of any other Person; (I) all Contracts which contain restrictions with respect to payment of dividends or any other distribution in respect of the Company’s capital stock; (J) all Contracts which are material to the Company or any of its Subsidiaries and which restrict the Company or any of its Subsidiaries from disclosing any information concerning or obtained from any other Person (other than Contracts entered into in the Ordinary Course of Business or currently enforceable Contracts, to the extent any disclosure thereof is prohibited thereby, with respect to any currently pending potential sale of all or a substantial portion of the Company whether such sale is pursuant to a merger or otherwise); (K) all Contracts referred to in Section 4.8(a)(iii); (L) all Contracts to be performed relating to capital expenditures of the Company and/or its Subsidiaries with a value in excess of $500,000 individually in any fiscal year; and (M) all material leases, subleases, licenses and other Contracts relating to the leased real properties of the Company and its Subsidiaries (collectively, the “Leases”).

(b) Each Material Contract is a valid and binding obligation of the Company or its Subsidiaries, as applicable, enforceable against the Company or its Subsidiaries, as applicable, in accordance with its terms and, to the knowledge of the Company, each other party thereto, and is in full force and effect, and the Company or its Subsidiaries, as applicable, has performed all material obligations required to be performed by it to the date hereof under each Material Contract and, to the knowledge of the Company, each other party.
to each Material Contract has performed all material obligations required to be performed by it under such Material Contract. The Company has not received notice, nor does it have knowledge, of any material violation of or default of any obligation under (or any condition which with the passage of time or the giving of notice would cause such a violation of or default under) any Material Contract to which it is a party or by which any of its assets are properties are bound. No material payment would be accelerated or be due by the Company or its Subsidiaries, as applicable, as a result of any change in control provisions in any Material Contracts as a result of the transactions contemplated by this Agreement.

Section 4.8 Employee Benefit Plans; ERISA.

(a) Section 4.8(a) of the Company Disclosure Schedule contains a true and complete list as of the date hereof of each (i) employee benefit plan and any material policy, program or arrangement (including, without limitation, each "employee benefit plan," within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and each employee benefit plan and any material policy, program or arrangement that is governed by the Laws of any jurisdiction other than the United States) sponsored, maintained or contributed to by the Company or any of its Subsidiaries for the benefit of current or former employees, directors, consultants or independent contractors (the "Company Participants") or with respect to which the Company or any of its Subsidiaries has any material liability; and (ii) material benefit arrangement or Contract between the Company or its Subsidiaries and any current or former employees, directors, consultants and independent contractors (clauses (i) and (ii) collectively, the "Company Benefit Plans"); and (iii) all Contracts (other than Company Benefit Plans) with any current or former employee, director, officer or consultant of the Company or any of its Subsidiaries under which the Company or any such Subsidiary has an ongoing or future payment obligation for services rendered or to be rendered.

(b) (i) Each of the Company Benefit Plans has been maintained, funded, operated, and administered in material compliance with applicable Law, its governing plan document and, where applicable, any contractual commitments to participants, including but not limited to ERISA and the Code, and neither the Company nor any of its Subsidiaries, as applicable, is currently in default under, or otherwise not in material compliance with, any such Company Benefit Plan, (ii) each of the Company Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has received a favorable determination letter from the IRS to such effect, has been timely amended to comply in all material respects with the provisions of the Tax legislation commonly referred to as "GUST" and "EGTRRA" and has been or will be submitted to the IRS for a determination letter that takes such amendments into account within the remedial amendment period specified by Section 401(b) of the Code, and the Company knows of no event that would cause the disqualification of any such Company Benefit Plan, (iii) no Company Benefit Plan provides welfare or welfare-type benefits (whether or not insured) to Company Participants or their dependents or beneficiaries beyond the Company Participant's termination of employment or termination of service of non employees with the Company or any of its Subsidiaries, other than coverage mandated by applicable Law or benefits the full cost of which is borne by the Company Participant (or his or her dependent or beneficiary), (iv) no Company Benefit Plan or any other employee pension benefit plan that the Company, any Subsidiary or any other entity that, together with the Company or any Subsidiary, is treated as a single employer under Section 414 of the Code, maintains, contributes to or ever has maintained or contributed to (A) is a "multiemployer plan," as such term is defined in Section 3(37) or 4001(a)(3) of ERISA, (B) is subject to Section 412 of the Code or Title IV of ERISA, or (C) is a defined benefit plan not covered by Section 4.8(b)(iv)(B) above, and neither the Company nor any of its
Subsidiaries has any liability (contingent or otherwise) under Title IV of ERISA or similar applicable Law on account of any such plan or otherwise, (v) neither the Company nor any of its Subsidiaries has engaged in a transaction with respect to any Company Benefit Plan which to the knowledge of the Company would subject such entity to either a material civil penalty assessed pursuant to Sections 502(i) or 502(l) of ERISA or a material Tax imposed pursuant to Section 4975 or 4976 of the Code, (vi) except as disclosed in the Company SEC Reports, to the knowledge of the Company, there are no pending or threatened claims (other than routine claims for benefits) by, on behalf of or against any of the Company Benefit Plans or any trusts related thereto, nor has the Company or any of its Subsidiaries received notice of any threatened, actions or proceedings by any Governmental Entity, against or otherwise involving any Company Benefit Plan, (vii) there are no uninsured liabilities with respect to any benefits or claims under any Company Benefit Plan, except as included as a liability in the Financial Statements, (viii) no event has occurred and no condition exists that to the knowledge of the Company would subject the Company or any of its Subsidiaries to any material Tax, fine, lien, penalty or other liability with respect to any Company Benefit Plan imposed by ERISA or the Code or other applicable Law, (ix) any terminated Company Benefit Plan has been terminated in all material respects in accordance with applicable Laws and all benefits under any such terminated plan have been paid in accordance with the terms of such Company Benefit Plan, (x) each U.S. (and, to the knowledge of the Company, foreign) Company Benefit Plan in the form as of the Closing Date may be amended or terminated at any time after the Closing Date without material liability to the Company or any of its Subsidiaries, as applicable, other than for accrued benefits and costs of termination, (xi) all material contributions or amounts payable by the Company or any of its Subsidiaries as of the Effective Time with respect to any Company Benefit Plan in respect of current or prior plan years which are required to be reflected in the Financial Statements in accordance with GAAP have been paid or accrued in accordance with GAAP, and (xii) the Company has made available to Parent and the Merger Sub true and correct copies in all material respects of all Company Benefit Plans and benefit arrangements or contracts listed in Section 4.8(a) of the Company Disclosure Schedule, together with all amendments thereto, and to the extent applicable, (A) all current summary plan descriptions; (B) the most recent annual report on the IRS Form 5500-series, including any attachments thereto; (C) the most recent accountant's report, if any; and (D) the most recent IRS determination letter.

(c) Except as provided pursuant to this Agreement, neither the execution, delivery or performance of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby shall (i) result in any material payment becoming due to any Company Participant, (ii) materially increase any benefits otherwise payable under any Company Benefit Plan, (iii) result in any acceleration of the time of payment or vesting of any benefits under any Company Benefit Plan, (iv) result in any material obligations to fund benefits with respect to any current or former employees of the Company or any of its Subsidiaries, or (v) violate the provisions of any agreement between a Company Participant and the Company or any of its Subsidiaries.

(d) The Company and its Subsidiaries, as applicable, have not violated, and have taken all actions necessary to comply with, the Worker Adjustment and Retraining Notification Act (the “WARN Act”) or any similar Law. During the 90-day period prior to the date of this Agreement, the Company and its Subsidiaries have terminated the number of employees set forth on Section 4.8(c) of the Company Disclosure Schedule.
Section 4.9 Litigation

. Except as set forth in the Company SEC Reports, as of the date hereof, there is no action, claim, suit, proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries. There is no judgment, award, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against the Company or any of its Subsidiaries which would materially interfere with the business or operations of the Company or any of its Subsidiaries.

Section 4.10 Compliance with Law

. Neither the Company nor any of its Subsidiaries is in violation of, or in default under, any Law, in each case, applicable to the Company or any of its Subsidiaries or any of their respective assets and properties that could result in a material Liability to the Company and its Subsidiaries, taken as a whole. Notwithstanding the foregoing, this Section 4.10 shall not apply to employee benefit plans, Intellectual Property, Taxes, Environmental Laws or labor matters, which are the subject exclusively of the representations and warranties in Section 4.8, Section 4.11, Section 4.12, Section 4.14 and Section 4.15, respectively. No investigation by any Governmental Entity with respect to the Company or any of its Subsidiaries is pending or, to the knowledge of the Company, threatened.

Section 4.11 Intellectual Property

(a) Section 4.11(a) of the Company Disclosure Schedule sets forth a list as of the date hereof of all material (i) issued patents and pending patent applications, (ii) trademark registrations and applications for registration thereof, and (iii) copyright registrations and applications for registration thereof, in each case that are owned by or on behalf of the Company or any of its Subsidiaries. With respect to each item of Intellectual Property identified in this Section 4.11: (i) the Company or one of its Subsidiaries own all right, title, and interest in and to such item, free and clear of any lien other than Permitted Liens; (ii) such item is not subject to any outstanding injunction, judgment, or order of any Governmental Entity which the Company has received written notice; and (iii) no lawsuit of which the Company has received written notice is pending or, to the knowledge of the Company, is threatened that challenges the validity or enforceability of such item.

(b) Section 4.11(b) of the Company Disclosure Schedule sets forth a list as of the date hereof of all agreements under which the Company or any of its Subsidiaries licenses from a third party Intellectual Property that is used by the Company or such Subsidiary in and material to the conduct of its business, as presently conducted, except for off-the-shelf software programs and other readily available commercial software that the Company and any of its Subsidiaries use in the Ordinary Course of Business (such agreements being referred to as “License-In Agreements”).
(c) To the knowledge of the Company, the Company and its Subsidiaries own or have the right to use, without payments to any other Person other than payments of an immaterial amount or payments described in any agreement disclosed to the Parent, all Intellectual Property used in the operation of the business of the Company and its Subsidiaries as presently conducted. No claim has been asserted against the Company or any of its Subsidiaries and, to the knowledge of the Company no claim is pending by any Person challenging or questioning the Company or any other Person's use of such Intellectual Property or the validity of the Intellectual Property, and to the knowledge of the Company, there is no reasonable basis for same. The Company and its Subsidiaries have taken commercially reasonable actions required to maintain each item of Intellectual Property that they own that is material to the conduct of the business of the Company or any of its Subsidiaries, as applicable. No loss or expiration of any of the Intellectual Property that is material to the conduct of the business of the Company or any of its Subsidiaries, as applicable, is pending or (to the knowledge of the Company) threatened, except for patents expiring at the end of their statutory terms (and not as a result of any act or omission by the Company or any of its Subsidiaries, as applicable, including, without limitation, a failure by the Company or any of its Subsidiaries, as applicable, to pay any required maintenance fees).

(d) To the knowledge of the Company, the operation of the business of the Company or any of its Subsidiaries as and where presently conducted does not infringe or misappropriate, any Intellectual Property rights of third parties that would result in a material liability to the Company or its Subsidiaries. Neither the Company nor any of its Subsidiaries has received any written notice during the past two years (or earlier, if not resolved), alleging any such infringement or misappropriation (including any written claim that the Company or any of its Subsidiaries must license or refrain from using any Intellectual Property rights of any third party). To the knowledge of the Company, no third party has infringed upon or misappropriated any Intellectual Property rights of the Company or any of its Subsidiaries during the past two years (or earlier if not resolved).

(e) The Company has a policy of requiring all employees, agents, consultants or contractors who have contributed or participated in the creation, development or improvement or modification of Intellectual Property of the Company or its Subsidiaries to assign all of their rights therein to the Company or a Subsidiary. The Company complies in all material respects with such policy. To the knowledge of the Company, (i) no Person has any basis for claiming any right, title or interest in and to any such Intellectual Property except for such claims as would not reasonably be expected to be successful, and (ii) no such claim is currently pending or threatened.

(f) The Company and its Subsidiaries have taken reasonable measures consistent with industry practice to protect and preserve the confidentiality of all of the Company's and Subsidiaries' trade secrets. To the knowledge of the Company, neither the Company nor its Subsidiaries has disclosed or authorized anyone to disclose material trade secrets other than pursuant to a nondisclosure agreement, and to the knowledge of the Company, no such party to any nondisclosure agreement is in breach thereof.

(g) None of the software of the Company or any Subsidiary is subject to the provisions of any open source or other source code license agreement that: (A) requires the distribution of source code in connection with the distribution of the licenses software in object code form; (B) prohibits or limits the Company or any Subsidiary from charging a fee or receiving consideration in connection with sublicensing or distributing such licensed software (whether in source code or object code form); or (C) allows a customer or requires that a customer have the right to decompile, disassemble or otherwise reverse engineer the software by its terms and not by operation of Law.
The consummation of the transactions contemplated by this Agreement will not result as a consequence of actions taken by the Company prior to the Effective Date in: (A) the Company or any of its Subsidiaries, as applicable, being bound by any non-compete or other restriction on the operation of any business of the Company or any of its Subsidiaries, as applicable, that the Company or any of its Subsidiaries, as applicable, was not bound by prior to the consummation of the transactions contemplated by this Agreement; (B) the granting by the Company or any of its Subsidiaries, as applicable, of any license of Intellectual Property to a third party (including, without limitation, a covenant not to sue) other than as granted by the Company or any of its Subsidiaries, as applicable, prior to the consummation of the transactions contemplated by this Agreement; and (C) the loss or impairment of the Company's or any of its Subsidiaries', as applicable, rights to own or use any material Intellectual Property.

Section 4.12 Taxes

To the knowledge of the Company:

(a) Each of the Company and its Subsidiaries has (i) timely filed all material Tax Returns required to be filed by any of them (taking into account applicable extensions), and all such filed Tax Returns are complete and accurate in all material respects, and (ii) paid or accrued (in accordance with GAAP) all material Taxes that are due and owing whether or not shown to be due on such Tax Returns or that the Company or any of its Subsidiaries are obligated to withhold from amounts owing to any stockholder, employee, creditor or third party, other than such Taxes as are being contested in good faith by the Company or its Subsidiaries and for which adequate reserves have been established in accordance with GAAP as reflected in the most recent consolidated balance sheet;

(b) There are no (i) pending or, to the knowledge of the Company, threatened, federal, state, local or foreign audits or examinations of any Tax Return of the Company or its Subsidiaries, (ii) no material deficiencies or claims for any Taxes that have been proposed, asserted or assessed against the Company or any of its Subsidiaries, or (iii) material Liens for Taxes upon the assets of the Company or any of its Subsidiaries, other than Liens for current Taxes not yet due and payable and Liens for Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP as reflected in the most recent consolidated balance sheet;

(c) There are no outstanding written waivers to extend the statutory period of limitations applicable to the assessment of any material Taxes or material deficiencies against the Company or any of its Subsidiaries;

(d) Neither the Company nor any of its Subsidiaries is a party to any agreement, contract, arrangement, or plan that has resulted or would result, separately or in the aggregate, in the receipt (whether in cash or property or the vesting of property) by any "disqualified individual" (as such term is defined in Proposed Treasury Regulation Section 1.280G-1) with respect to the Company or any of its Subsidiaries of any amount that would be an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code). Neither the Company nor any of its Subsidiaries has incurred any liability to make any payments that are or may be nondeductible under Section 162(m) of the Code;

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(e) Neither the Company nor any of its Subsidiaries is a party to, bound by or has any material obligation under, any Tax sharing agreement or similar contract or arrangement or any agreement that obligates it to make any material payment computed by reference to the Taxes, taxable income or taxable losses of any other Person (other than any agreements among any of the Company or any of its Subsidiaries or any contracts or arrangements entered into with employees, consultants or independent contractors or in connection with purchase or sale agreements or sale leasebacks); and

(f) The Company and its Subsidiaries (A) are not, and have not been, a member of an affiliated group filing a consolidated federal income Tax Return or an affiliated, combined or unitary group other than a group the common parent of which is the Company, and (B) have no liability for Taxes of any Person under Treasury Regulation 1.1502-6(a) (or any similar provision of state, local or foreign Law) (other than for Taxes of the Company and its Subsidiaries), or as a transferee or successor, by contract or otherwise.

Section 4.13 Real and Personal Property.

(a) To the knowledge of the Company, the Company and/or one or more of its Subsidiaries have valid title to, or valid leasehold or sublease interests or other comparable contract rights in or relating to, all of the real property and personal property necessary for the conduct of the business of the Company and its Subsidiaries, taken as a whole, as currently conducted, free and clear of Liens subject to minor imperfections in title that would not materially affect the Surviving Corporation’s use and enjoyment thereof after the Effective Time. Section 4.13(a) of the Company Disclosure Schedule as of the date hereof sets forth a list of all owned real property and real property subject to a Lease. The Company and/or its Subsidiaries has a valid leasehold interest in the leasehold estates and licenses created by the Leases free and clear of Liens, except where such Liens would not interfere in any material respect with the conduct of the business of the Company and its Subsidiaries, taken as a whole, as currently conducted on the leased premises. No consent or approval is required to be obtained under any of the Leases, and no material breach, default or right of termination shall arise under any Lease nor does any landlord or other party have the right to increase the amounts payable or charge any sum under any Lease, in each case in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby. Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any affiliates of any of the foregoing is, or has an ownership, financial or other interest in, the landlord under any of the Leases.

(b) All of the Company's and its Subsidiaries' material personal property, including computers, electronics, leasehold improvements, furnishings, machinery and equipment, is in good repair (ordinary wear and tear excepted), is in good working order and, to the knowledge of the Company, materially complies with all applicable Laws.
Section 4.14 Environmental

(a) To the knowledge of the Company, each of the Company and its Subsidiaries is in compliance with all Environmental Laws, which compliance includes the possession by the Company and its Subsidiaries of material permits, licenses and other governmental authorizations required for their current operations under applicable Environmental Laws, and compliance with the terms and conditions thereof.

(b) Neither the Company nor any of its Subsidiaries has received written notice of any Environmental Claims against the Company or any Subsidiary.

(c) To the knowledge of the Company, (i) with respect to the real property currently or previously owned, leased or operated by the Company or any of its Subsidiaries, there have been no releases of Hazardous Materials that require a Cleanup, and (ii) none of the Company, its Subsidiaries, or their respective predecessors has treated, stored, disposed of, arranged for or permitted the disposal of, manufactured, distributed, transported, handled, or released any substance, including without limitation any hazardous substance, or owned or operated any property or facility (and no such property or facility is contaminated by any such substance) in a manner that has given rise to Liabilities or could give rise to Liabilities pursuant to any Environmental Laws.

(d) To the knowledge of the Company, neither the Company nor any of its Subsidiaries has assumed, undertaken, or otherwise become subject to, any liability of any other Person or entity relating to Environmental, Health, and Safety Requirements.

(e) To the knowledge of the Company, no facts, events or conditions relating to the past or present facilities, properties or operations of the Company, its Subsidiaries, or any of their respective predecessors could reasonably be expected to prevent, hinder or limit continued compliance with Environmental Laws, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental Laws, or give rise to any other Liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) pursuant to Environmental Laws.

Section 4.15 Labor Matters

(a) Neither the Company nor any of its Subsidiaries is a party to any collective bargaining or other labor union contract and no collective bargaining agreement is being negotiated by the Company or any of its Subsidiaries and there are no labor or collective bargaining agreements that pertain to the employees of the Company or any of its Subsidiaries other than works councils required by statute, (b) there is no pending or to the knowledge of the Company, threatened labor dispute, strike, work stoppage, lockout or other labor controversy involving the Company or any of its Subsidiaries which may interfere with the respective business activities of the Company or any of its Subsidiaries, nor has the Company or any of its Subsidiaries experienced any such labor controversy within the past three years, (c) there is no union or similar organization currently certified, and there is no union representation question and no union or other organization activity that would be subject to the National Labor Relations Act (20 U.S.C. § 151 et seq.) or similar applicable Law exists, or to the knowledge of the Company, is threatened with respect to the Company's or any of its Subsidiaries operations;
(d) to the knowledge of the Company, no employee of the Company or any of its Subsidiaries ("Employee") is a party to any confidentiality, non-competition, proprietary rights or other such agreement between such Employee and any other Person besides the Company or any of its Subsidiaries, as applicable, that would be material to the performance of such Employee's employment duties, or the ability of the Company or Merger Sub to conduct their business, (e) there is no pending or, to the knowledge of the Company, threatened action, complaint, arbitration, proceeding or investigation against the Company or any of its Subsidiaries by or before any court, governmental agency, administrative agency, board, commission or arbitrator brought by or on behalf of any prospective, current or former employee, labor organization or other representative of employees of the Company or any of its Subsidiaries, (f) the Company and its Subsidiaries are in material compliance with all applicable Laws, agreements, and policies relating to employment of labor, employment practices and terms and conditions of employment, including, but not limited to, all such Laws relating to hours, wages, civil rights, safety and health, workers' compensation, and the collection and payment of withholding and/or Social Security taxes and other similar taxes, and (g) all salaries, wages and other benefits, bonuses and commissions of all directors, officers and employees of the Company and its Subsidiaries have, to the extent due, been paid or discharged in full or are reflected as liabilities on the financial statements contained in the SEC Reports.

Section 4.16 Insurance

Section 4.16 of the Company Disclosure Schedule contains a list as of the date hereof of all insurance policies (including name of issuer, policy number, insured parties, expiration date, type and amount of coverage and deductible) and binders of insurance and all surety and fidelity bonds which are owned by the Company and any of its Subsidiaries and which name the Company or any of its Subsidiaries as an insured, including without limitation self insurance programs (the "Insurance Policies"). All such Insurance Policies are in full force and effect and (a) each of the Insurance Policies is valid and outstanding and, to the knowledge of the Company, enforceable, and all premiums due thereon have been paid in full, (b) none of the Insurance Policies shall terminate or lapse (or be affected in any other material adverse manner) by reason of the Merger, (c) each of the Company and its Subsidiaries has complied in all material respects with the provisions of each Insurance Policy under which it is the insured party, (d) to the knowledge of the Company, no insurer under any Insurance Policy has cancelled or generally disclaimed liability under any such Insurance Policy or given notice of any intent to do so or not to renew any such Insurance Policy, (e) to the knowledge of the Company, all material claims under the Insurance Policies have been filed in a timely fashion and there has been no denial or reservation of rights issued by any insurer under any Insurance Policies with respect to any pending insurance claim, (f) there have been no gaps in insurance coverage as with respect to time or limits for policies in effect since January 1, 2003, (g) the historical aggregate insurance limits have not been significantly impaired, and all properties of the Company are adequately insured to full replacement cost and appropriate levels of business interruption insurance.

Section 4.17 Information Supplied

(a) None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the proxy or information statement (including any amendment or supplement thereto) related to the meeting of the Company's shareholders to be held in connection with the Merger and the transactions contemplated by this Agreement (the "Proxy Statement") will, at the time the Proxy Statement is first published, sent or given to the shareholders of the Company, at the time of the Company Shareholders Meeting or at
the Effective Time, contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they are made, not false or misleading or necessary to correct any statement in any earlier communication with respect to any solicitation of proxies for the Company Shareholders Meeting which shall have become false or misleading. All documents that the Company is responsible in whole or in part for filing with the SEC in connection with the Merger will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder at the time the Proxy Statement is first published, sent or given to the shareholders of the Company and at the Effective Time.

(b) Notwithstanding the foregoing provisions of this Section 4.17, no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Proxy Statement based on information supplied in writing by Parent or Merger Sub for inclusion or incorporation by reference therein.

Section 4.18 Absence of Certain Changes or Events

Since September 30, 2009, (i) the Company and its Subsidiaries have conducted their respective businesses in the Ordinary Course of Business, (ii) there has not been any condition, event or occurrence which has had or would have a Company Material Adverse Effect and (iii) the Company and its Subsidiaries have not:

(a) declared, set aside for payment or paid any dividend or other distribution in respect of any Common Stock or otherwise made any payments to shareholders in their capacity as such;

(b) split, combined, subdivided or reclassified any Common Stock;

(c) except for Common Stock issued or delivered pursuant to the Company Equity Plans and except for the issuance, grant or delivery of equity awards issued pursuant to the Company Equity Plans in the Ordinary Course of Business, issued, delivered, sold, disposed of, pledged or otherwise encumbered, or authorized or proposed the issuance, sale, disposition or pledge or other encumbrance of (i) any shares of capital stock of any class or any other ownership interest of the Company or any of its Subsidiaries, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or (ii) any other securities of the Company or any of its Subsidiaries in respect of, in lieu of, or in substitution for, Common Stock;

(d) made or committed to be make or enter into any Contracts (or amendments, modifications, supplements or replacements to existing Contracts) to be performed by
the Company or any of its Subsidiaries relating to, capital expenditures by the Company or any of its Subsidiaries under which the obligations of the Company or any of its Subsidiaries from and after September 30, 2009 will be in excess of $500,000 in the current year or any future calendar year, or in the aggregate for such capital expenditures with a value in excess of $500,000 and the Company and its Subsidiaries have not made any capital expenditures in excess of such amounts since September 30, 2009;

(e) acquired, by merging or consolidating with, by purchasing an equity interest in, by purchasing all or a portion of the assets of, or by any other manner, any business or any Person, or otherwise acquired any assets of any Person (other than the purchase of equipment, inventories and supplies in the Ordinary Course of Business);

(f) other than sales of inventory in the Ordinary Course of Business, acquired, sold, leased, disposed of, pledged or encumbered any assets that, in the aggregate, are material to the Company and its Subsidiaries, taken as a whole;

(g) except as disclosed in the Company SEC Reports and except to the extent required under existing employee and director benefit plans, agreements or arrangements in effect on September 30, 2009 or required by applicable Law or contemplated by Section 2.6, and other than the grant of awards in the Ordinary Course of Business pursuant to the Company’s stock option plans prior to the date of this Agreement, granted any material increases in the compensation of its directors, officers or employees;

(h) adopted a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries;

(i) except as disclosed in the Company SEC Reports, incurred any indebtedness for borrowed money in excess of $500,000 or guaranteed any such indebtedness or made any loans, advances or capital contributions to, or investments in, any other Person, other than to the Company or any wholly owned Subsidiary of the Company;

(j) taken any actions or made any omissions which would (or would reasonably be likely to) materially impede, delay, hinder or make more burdensome the ability of the Surviving Corporation or Parent to obtain and maintain any and all authorizations, approvals, consents or orders from any Governmental Entity or other third party necessary or required to maintain the Company’s permits in effect immediately following the Merger on substantially the same terms as in effect on the date of this Agreement; or

(k) (i) materially amended any Tax Returns or claims for refunds filed or (ii) made or rescinded any material Tax election with respect to the treatment of items on such Tax Returns.

Section 4.19 Affiliate Transactions

. Except as set forth in the Company SEC Reports, there are no material Contracts between the Company or any of its Subsidiaries, on the one hand, and any (i) present or former officer or director of the Company or any of its Subsidiaries or any of their immediate family members (including their spouses), (ii) record or beneficial owner of 10% or more of the voting securities of the Company or (iii) affiliate of any such officer, director, family member or beneficial owner, on the other hand.
Section 4.20 Vote Required

. The Company Shareholder Approval is the only vote of the holders of any class or series of the capital stock of the Company necessary to approve and adopt the Company Voting Proposal.

Section 4.21 Brokers or Finders

. No investment banker, broker, finder, consultant or intermediary other than Houlihan Lokey Howard & Zukin Capital, Inc. (“HLHZ”), the fees and expenses of which will be paid by the Company, is entitled to any investment banking, brokerage, finder’s or similar fee or commission in connection with this Agreement or the transactions contemplated hereby based upon arrangements made by or on behalf of the Company or any of its Subsidiaries. The Company has provided Parent with a true and complete copy of the engagement letters relating to its arrangements with HLHZ.

Section 4.22 Opinion of Financial Advisor

. The Strategic Committee has received the opinion of HLHZ that, as of the date of such opinion and subject to the assumptions, qualifications and limitations set forth therein, the Merger Consideration was fair, from a financial point of view, to the holders of Common Stock. A written copy of such opinion will be furnished, for informational purposes, to Parent as promptly as practicable. It is agreed and understood that such opinion may not be relied on by Parent or Merger Sub.

Section 4.23 Foreign Corrupt Practices Act

. Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any of their respective officers, directors, agents and employees have taken any action that (i) violated the United States Foreign Corrupt Practices Act, 15 U.S.C. Sections 78dd-1 et seq., or (ii) violated any similar Law of any jurisdiction in which the Company or any of its Subsidiaries conducts business.

Section 4.24 Rights Plan

. The Rights Agreement between the Company and American Stock Transfer and Trust Co., dated May 4, 1999, as amended October 28, 2000 (the “Rights Agreement”) terminated on May 4, 2009, and the Company is not a party to any other agreements that provide similar rights to the Company’s equity holders as were contained in the Rights Agreement.

Section 4.25 Disclosure

. The representations and warranties of the Company contained in this Agreement are true and correct in all material respects, and such representations and warranties do not omit any material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.
ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub jointly and severally represent and warrant to the Company as follows:

Section 5.1 Organization

. Each of Parent and Merger Sub is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation and has the requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Each of Parent and Merger Sub is duly qualified or licensed to do business and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Parent Material Adverse Effect. Parent has made available to the Company a copy of the Organizational Documents of Parent and Merger Sub, as currently in effect, and neither Parent nor Merger Sub is in violation of any provision of its Organizational Documents.

Section 5.2 Authorization; Validity of Agreement; Necessary Action

. Each of Parent and Merger Sub has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Parent and Merger Sub of this Agreement, approval and adoption of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary action of Parent and Merger Sub, and no other action on the part of Parent or Merger Sub is necessary to authorize the execution and delivery by Parent and Merger Sub of this Agreement and the consummation by them of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and Merger Sub and, assuming due and valid authorization, execution and delivery hereof by the Company, is a valid and binding obligation of each of Parent and Merger Sub, enforceable against each of them in accordance with its terms, except that such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws, now or hereafter in effect, affecting creditors’ rights generally.

Section 5.3 Consents and Approvals; No Violations

. The execution and delivery of this Agreement by Parent and Merger Sub do not, and the performance by Parent and Merger Sub of this Agreement and the consummation by Parent and Merger Sub of the transactions contemplated hereby will not, (i) violate any provision of the Organizational Documents of Parent or Merger Sub, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or
obligation to which Parent or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound, (iii) violate any Law applicable to Parent, any of its Subsidiaries or any of their properties or assets or (iv) other than in connection with or compliance with (A) the CCC, (B) requirements under other state corporation Laws, (C) the HSR Act and any applicable antitrust and competition Laws of jurisdictions other than the United States and (D) the Exchange Act, require on the part of Parent or Merger Sub any filing or registration with, notification to, or authorization, consent or approval of, any Governmental Entity.

Section 5.4 Litigation

. There is no action, claim, suit, proceeding pending or, to the knowledge of Parent and Merger Sub, threatened, that would result in a Parent Material Adverse Effect.

Section 5.5 Ownership of Common Stock

. None of Parent, Merger Sub or any of their Affiliates owns (directly or indirectly, beneficially or of record), or is a party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, any shares of capital stock of the Company (other than as contemplated by this Agreement);

Section 5.6 Compliance with Law

. Neither Parent nor any of its Subsidiaries is in violation of, or in default under, any Law, in each case, applicable to Parent or any of its Subsidiaries or any of their respective assets and properties that would result in a Parent Material Adverse Effect.

Section 5.7 Merger Sub’s Operations

. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has not owned any assets, engaged in any business activities or conducted any operations other than in connection with the transactions contemplated hereby.

Section 5.8 Information Supplied

(a) None of the information supplied or to be supplied by Parent or Merger Sub for inclusion or incorporation by reference in the Proxy Statement will, at the time the Proxy Statement is first published, sent or given to shareholders of the Company, at the time of the Company Shareholders Meeting or the Effective Time, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they are made, not false or misleading or necessary to correct any statement in any earlier communication with respect to any solicitation of proxies for the Company Shareholders Meeting which shall have become false or misleading. All documents that Parent or Merger Sub are responsible in whole or in part for filing with the SEC in connection with the Merger will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder at the time the Proxy Statement is first published, sent or given to the shareholders of the Company and at the Effective Time.
Notwithstanding the foregoing provisions of this Section 5.8, no representation or warranty is made by Parent or Merger Sub with respect to statements made or incorporated by reference in the Proxy Statement based on information supplied by or on behalf of the Company for inclusion or incorporation by reference therein.

Section 5.9 Financing.

Parent currently has, and Parent and Merger Sub will have as of the Effective Time, cash and cash equivalents sufficient for Merger Sub and the Surviving Corporation to pay the Merger Consideration and the aggregate Per Share Option Consideration and any other amounts required to be paid in connection with the consummation of the transactions contemplated hereby and to pay all related fees and expenses.

Section 5.10 Investigation by Parent and Merger Sub.

(a) Each of Parent and Merger Sub has conducted its own independent review and analysis of the businesses, assets, condition, operations and prospects of the Company and its Subsidiaries and acknowledges that each of Parent and Merger Sub has been provided access to the properties, premises and records of the Company and its Subsidiaries for this purpose.

(b) In connection with Parent’s and Merger Sub’s investigation of the Company, each of Parent and Merger Sub has received from the Company and its Representatives certain financial projections and other financial forecasts, including but not limited to projected financial statements, cash flow items and other data of the Company and its Subsidiaries and certain business plan information of the Company and its Subsidiaries. Each of Parent and Merger Sub acknowledges that there are uncertainties inherent in attempting to make such financial projections and other financial forecasts and accordingly is not relying on them, that each of Parent and Merger Sub is familiar with such uncertainties, that each of Parent and Merger Sub is taking full responsibility for making its own evaluation of the adequacy and accuracy of all financial projections and other financial forecasts so furnished to it.

ARTICLE VI
COVENANTS

Section 6.1 Interim Operations of the Company.

During the period from the date of this Agreement to the Effective Time or the date, if any, on which this Agreement is earlier terminated pursuant to Section 8.1 (the “Pre-Closing Period”) (except (w) as may be required by Law, (x) with the prior written consent of Parent (provided that Parent shall be deemed to have consented if Parent does not object within 72 hours after a written request for such consent is delivered to Parent by the Company), which consent shall not be unreasonably withheld, delayed or conditioned, (y) as contemplated or permitted by this Agreement, or (z) as set forth in the Company Disclosure Schedule), the business of the Company and its Subsidiaries shall be conducted only in the Ordinary Course of Business, and the Company will use commercially reasonable efforts to preserve intact its current business organization, keep available the services of its officers.
and employees and maintain its relations and goodwill with its material suppliers, customers, landlords, creditors and others having material business relationships with it. Without limiting the generality of the foregoing, except (w) as may be required by Law, (x) with the prior written consent of Parent (provided that Parent shall be deemed to have consented if Parent does not object within 72 hours after a written request for such consent is delivered to Parent by the Company), which consent shall not be unreasonably withheld, delayed or conditioned, (y) as contemplated or permitted by this Agreement, or (z) as set forth in the Company Disclosure Schedule, prior to the Effective Time neither the Company nor any of its Subsidiaries will:

(a) amend its Organizational Documents;

(b) except for Common Stock to be issued or delivered pursuant to the Company Equity Plans and except for the issuance, grant or delivery of equity awards issued pursuant to the Company Equity Plans in the Ordinary Course of Business, issue, deliver, sell, dispose of, pledge or otherwise encumber, or authorize or propose the issuance, sale, disposition or pledge or other encumbrance of (i) any shares of capital stock of any class or any other ownership interest of the Company or any of its Subsidiaries, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of capital stock or any other ownership interest of the Company or any of its Subsidiaries, or (ii) any other securities of the Company or any of its Subsidiaries in respect of, in lieu of, or in substitution for, Common Stock outstanding on the date hereof;

(c) redeem, purchase, exchange or otherwise acquire, or propose to redeem, purchase, exchange or otherwise acquire, any outstanding Common Stock;

(d) split, combine, subdivide or reclassify any Common Stock;

(e) declare, set aside for payment or pay any dividend or other distribution in respect of any Common Stock or otherwise make any payments to shareholders in their capacity as such;

(f) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries, other than the Merger;

(g) other than sales of inventory in the Ordinary Course of Business, acquire, sell, lease, exclusively license, dispose of, pledge or encumber any assets that, in the aggregate, are material to the Company and its Subsidiaries, taken as a whole, or have a fair market value (or are valued on the records of the Company) in excess of $500,000;

(h) incur any indebtedness for borrowed money in excess of $1,000 in addition to that incurred as of the date of this Agreement or guarantee any such indebtedness or make any loans, advances or capital contributions to, or investments in, any other Person, other than to the Company or any wholly owned Subsidiary of the Company;
(i) other than in the Ordinary Course of Business, grant any material increases in the compensation of, or grant bonuses or special remuneration to, or make severance payments (other than severance payments required by existing plans or policies of the Company or as required by law) to, any of its directors, officers or employees, or enter into any new employment or severance protection agreements with any such directors, officers or employees;

(j) terminate, amend or waive any material rights in any Material Contract in a manner that would be materially adverse to the Company or fail to perform any material obligations under any Material Contract;

(k) enter into any Contract that would be a Material Contract, other than Contracts for the sales of products in the Ordinary Course of Business;

(l) adopt, terminate or amend any Benefit Plans in a manner that would materially increase the costs to the Company;

(m) change any of the accounting methods used by the Company, including accelerating the payment of any Liabilities or delaying the collection of any receivables in a manner inconsistent with past practices, unless required by GAAP or applicable Law;

(n) take any action that would invalidate or cause the cancellation of any current insurance coverage or fail to maintain current insurance coverage or suitable renewals thereof providing coverage substantially the same as any expiring policy; enter into any contract, agreement, commitment or arrangement to do any of the foregoing;

(o) make any investments or capital contributions to any Person other than capital contributions to direct or indirect wholly-owned Subsidiaries of the Company

(p) settle any material litigation against the Company and/or its directors, including litigation relating to the transactions contemplated hereby or by the Prior Agreement; provided that the Company shall give Parent the opportunity to participate in the defense or settlement of any such litigation.

Section 6.2 Conduct of Business by Parent and Merger Sub Pending the Merger

. Each of Parent and Merger Sub agrees that, between the date of this Agreement and the Effective Time, it shall not, directly or indirectly, take any action that would reasonably be likely to delay the consummation of the Transactions.

Section 6.3 Access to Information.

(a) The Company shall (and shall cause each of its Subsidiaries to) afford to directors, officers, employees, counsel, investment bankers, accountants and other advisors or authorized representatives (collectively, “Representatives”) of Parent reasonable access, in a manner not disruptive to the operations of the business of the Company and its Subsidiaries, during normal business hours and upon reasonable notice throughout the Pre-Closing Period, to the properties, books and records of the Company and its Subsidiaries; provided, however, that nothing herein shall require the Company or any of its Subsidiaries to disclose any information to Parent or Merger Sub if such disclosure would, in the
reasonable judgment of the Company, (i) cause significant competitive harm to the Company or its Subsidiaries if the transactions contemplated by this Agreement are not consummated, (ii) violate applicable Law or the provisions of any agreement to which the Company or any of its Subsidiaries is a party or (iii) jeopardize any attorney-client or other legal privilege; provided further, however, that nothing herein shall authorize Parent or its Representatives to undertake any further investigation of the Company, including environmental investigations or sampling at any of the properties owned, operated or leased by the Company or its Subsidiaries. Parent agrees that it will not, and will cause its Representatives not to, use any information obtained pursuant to this Section 6.3(a) for any competitive or other purpose unrelated to the consummation of the transactions contemplated by this Agreement pursuant to this Agreement.

(b) The Mutual Confidentiality Agreement, dated November 30, 2009 (the “Confidentiality Agreement”), between the Company and Parent shall apply with respect to information furnished by the Company, its Subsidiaries and the Company’s officers, employees, and other Representatives hereunder.

Section 6.4 Acquisition Proposals.

(a) No-Shop Period; Acquisition Proposal. The Company shall cease and cause to be terminated any solicitation, encouragement, discussion or negotiation with any Persons conducted theretofore by the Company, its Subsidiaries or any of their respective Representatives with respect to any Acquisition Proposal and during the period beginning on the date hereof and continuing until the termination of this Agreement in accordance with Article VIII, the Company agrees that the Company shall not, nor shall it authorize or knowingly permit any of its Subsidiaries or Representatives to, directly or indirectly through another Person, (i) solicit, initiate, knowingly encourage or knowingly facilitate (including by way of furnishing non-public information) any inquiries or the making of any proposal or offer (including any proposal from or offer to the Company’s shareholders) with respect to, or that would reasonably be expected to lead to, any Acquisition Proposal, (ii) enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person any non-public information or grant access to its properties, books and records or personnel in connection with, any Acquisition Proposal or (iii) terminate, release, amend, waive or modify any provision of any confidentiality, standstill or similar agreement to which it or any of its Subsidiaries is a party (or fail to take reasonable measures to enforce the provisions of any such agreements), or take any action to exempt any person (other than Parent, Merger Sub and their Affiliates) from any applicable takeover Laws or otherwise cause such restrictions not to apply; provided, however, that if on or after the date hereof and prior to the approval of the principal terms of the Merger and adoption of this Agreement at the Company Shareholders Meeting, the Company receives a bona fide unsolicited Acquisition Proposal not obtained in violation of this Section 6.4 which causes the Company Board or the Strategic Committee to determine in good faith (i) after consultation with its outside counsel and financial advisor, that such Acquisition Proposal constitutes, or could reasonably be likely to result in, a Superior Proposal and (ii) after consultation with its outside counsel, that failure to take any of the actions referred to in clauses (i) through (iii) of this Section 6.4(a) would reasonably be expected to result in a breach of its fiduciary duties to the Company shareholders under applicable Law, then the Company Board or the Strategic Committee may take any of the actions referred to in clauses (i) through (iii) of this Section 6.4(a).
(b) Except as expressly permitted by this Section 6.4(b), neither the Company Board, nor any committee thereof (including the Strategic Committee) shall (i) withdraw or modify in a manner adverse to Parent, the Company Recommendation (a "Change of Recommendation"), (ii) approve or recommend any Acquisition Proposal, or (iii) cause or permit the Company to enter into (or publicly propose that the Company enter into) any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement or other similar agreement (an "Alternative Acquisition Agreement") with respect to any Acquisition Proposal or authorize, approve or publicly recommend or propose to approve or recommend any Acquisition Proposal or any agreement, understanding or arrangement relating to any Acquisition Proposal (or resolve or authorize or propose to agree to do any of the foregoing actions), except for an Acceptable Confidentiality Agreement entered into in the circumstances referred to in Section 6.4(a). Notwithstanding the foregoing, prior to the approval of the principal terms of the Merger and adoption of this Agreement at the Company Shareholders Meeting—(A) if in response to the receipt of a written Acquisition Proposal which causes the Company Board or the Strategic Committee to determine in good faith (x) after consultation with its outside counsel and financial advisor, that such Acquisition Proposal constitutes, or could reasonably be likely to result in, a Superior Proposal and (y) after consultation with its outside counsel, that failure to take any of the following actions would reasonably be expected to result in a breach of its fiduciary duties to the Company shareholders under applicable Law to continue to recommend the Merger, then the Company Board or the Strategic Committee may approve or recommend such Superior Proposal and, in connection with the approval or recommendation of such Superior Proposal, make a Change of Recommendation and/or terminate this Agreement (and subject to Article VIII, in connection with such termination, if it so chooses, cause the Company to enter into an Alternative Acquisition Agreement with respect to such Superior Proposal); and (B) other than in connection with an Acquisition Proposal, if the Company Board or the Strategic Committee determines in good faith, after consultation with its outside legal counsel, in response to a material development occurring or arising after the date of this Agreement that was neither known to the Company Board nor reasonably foreseeable as of or prior to the date of this Agreement (such material development, an "Intervening Event"), that its failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to the Company shareholders under applicable Law, then the Company Board or the Strategic Committee may make a Change of Recommendation; provided, however, that the Company Board or the Strategic Committee may not take any actions set forth in clauses (A) or (B) of the immediately preceding sentence unless the following conditions have been met:

(i) the Company has complied in all material respects with, and the Acquisition Proposal was not a result of a breach by the Company of, Section 6.4; 

(ii) the Company Board or the Strategic Committee shall have first provided prior written notice to Parent (A) that it is prepared to effect a Change of Recommendation in response to a Superior Proposal and/or terminate this Agreement to enter into a definitive agreement with respect to such Superior Proposal, which notice shall attach the most current version of any proposed written agreements relating to the transaction that constitutes such Superior Proposal, including the identity of the person making such Superior Proposal and shall promptly notify Parent of any material revisions to the Superior Proposal, or (B) that it is prepared to effect a Change of Recommendation in response to an Intervening Event, including a brief description of the material development giving rise to such Intervening Event;
(iii) Parent and its Representatives shall have had through 11:59 pm California time on the third Business Day following receipt of such notice from the Company (or longer period if extended by the mutual agreement of the Company and Parent) (the "Notice Period") to make a proposal (if Parent desires) to modify the terms of this Agreement in response to such Superior Proposal or Intervening Event;

(iv) following receipt of any such proposal with respect to such modifications to the terms of this Agreement by Parent, the Company and its Representatives shall have negotiated in good faith during the Notice Period with Parent and its Representatives (if Parent desires to so negotiate) to make such modifications to the terms of this Agreement as would make the relevant Acquisition Proposal no longer a Superior Proposal or in a manner that obviates the need for taking such action as a result of an Intervening Event;

(v) after the Company and its Representatives shall have negotiated in good faith with Parent and its Representatives to make such modifications to the terms of this Agreement as would make the relevant Acquisition Proposal no longer a Superior Proposal or in a manner that obviates the need for taking such action as a result of an Intervening Event, the Strategic Committee shall have again determined in good faith, after consultation with its outside legal counsel and financial advisor, and after taking into account any such modifications proposed by Parent, that failure to effect a Change of Recommendation in response to such Superior Proposal or Intervening Event, or terminate this Agreement to enter into a definitive agreement with respect to such Superior Proposal, would reasonably be expected to be a breach of its fiduciary duties to the Company shareholders under applicable Law to continue to recommend the Merger; and

(vi) with respect to a Superior Proposal, the Company shall have paid the Termination Fee pursuant to Section 8.3(b)(ii), prior to, and as a condition of, the termination of this Agreement.

The Company shall be required to deliver a new written notice in the event of any material revisions to the Superior Proposal, in which event a new Notice Period shall commence following receipt of such new written notice by Parent.

(c) Notices to Parent. The Company shall as promptly as possible (but in any event within one Business Day) provide notice to Parent of receipt by the Company of any Acquisition Proposal, any inquiry with respect to, or any request for nonpublic information in connection with, any Acquisition Proposal, the material terms and conditions of any such Acquisition Proposal, inquiry or request and the identity of the person making any such Acquisition Proposal, inquiry or request and shall keep Parent informed on a current basis of the status thereof and of any material communications, material modifications or material developments with respect to such Acquisition Proposal, inquiry or request, including, without limitation, copies of all Acquisition Proposals. The Company agrees that it and its Subsidiaries will not enter into a confidentiality agreement with any person subsequent to the date of this Agreement that prohibits the Company from providing such information to Parent.

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(d) Certain Permitted Disclosure. Nothing in this Section 6.4 shall prohibit the Company Board from taking and disclosing to the Company’s shareholders a position contemplated by Rule 14e 2(a), Rule 14d 9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act, or other applicable Law, if the Company Board determines in good faith, after consultation with outside counsel, that failure to so disclose such position could constitute a violation of applicable Law and any such disclosure which would otherwise constitute a Change of Recommendation shall not be deemed to constitute such a Change of Recommendation for the purposes of Section 6.4(b) if the Company Board expressly publicly reaffirms its approval and recommendation of this Agreement in such communication. In addition, it is understood and agreed that, for purposes of this Section 6.4(d), a factually accurate public statement by the Company that describes the Company’s receipt of an Acquisition Proposal and the operation of this Agreement with respect thereto and contains a “stop look and listen” communication shall not constitute a Change of Recommendation for the purposes of Section 6.4(b).

Section 6.5 Employee Benefits.

(a) As of the Effective Time, Parent agrees to provide or cause its Subsidiaries (including the Surviving Corporation) to provide each of the Employees with base salary or wage rates and incentive compensation opportunities and other cash compensation and benefits that are in line with current market rates for similar employment positions and. Parent further intends to supplement such compensation and benefits with performance incentive programs. For the avoidance of doubt, this Section 6.5(a) does not guarantee any Employee employment with the Company at any time after the Effective Time except as may be set forth in any written contract with the Company.

(b) As of the Effective Time, Parent shall honor or cause to be honored, in accordance with their terms, all written employment contracts and other compensation agreements with any Employee, in each case existing immediately prior to the execution of this Agreement and as that are disclosed on Schedule 4.7 of the Company Disclosure Schedule.

(c) Parent shall treat, and shall cause each benefit plan, program, practice, policy and arrangement maintained by Parent or its Subsidiaries (including the Surviving Corporation) or Affiliates following the Effective Time and in which any of the Employees participate or are eligible to participate (the “Parent Plans”) to treat, for purposes of determining eligibility to participate, vesting, accrual of and entitlement to benefits (but not for accrual of benefits under any “defined benefit plan,” as defined in Section 3(35) of ERISA) and all other purposes, all service with the Company and its Subsidiaries (or predecessor employers to the extent the Company or any Company Benefit Plan provides past service credit) as service with Parent and its Subsidiaries. Parent shall cause each Parent Plan that is a welfare benefit plan, within the meaning of Section 3(1) of ERISA, (i) to waive any and all eligibility waiting periods, evidence of insurability requirements and pre-existing condition limitations to the extent waived, satisfied or not included under the corresponding Benefit Plan, and (ii) to recognize for each Employee for purposes of applying annual deductible, co-payment and out-of-pocket maximums under such Parent Plan any deductible, co-payment and out-of-pocket expenses paid by the Employee and his or her spouse and dependents under a corresponding Company Benefit Plan during the calendar year in which occurs the later of the Effective Time and the date on which the Employee begins participation in such Parent Plan.
Section 6.5 shall confer any rights or remedies of any kind or description upon any of the Employees, or their respective successors and assigns, and nothing in this Section 6.5 shall constitute an amendment to any Company Benefits Plan.

Section 6.6 Publicity

The initial press release by each of Parent and the Company with respect to the execution of this Agreement shall be acceptable to Parent and the Company. Neither the Company nor Parent (nor any of their respective Affiliates) shall issue any other press release or make any other public announcement with respect to this Agreement or the transactions contemplated hereby without the prior agreement of the other party, except as may be required by Law or by any listing agreement with a national securities exchange, in which case the party proposing to issue such press release or make such public announcement shall use its reasonable efforts to consult in good faith with the other party before making any such public announcements; provided that the Company will no longer be required to obtain the prior agreement of or consult with Parent in connection with any such press release or public announcement related to the matters described in Section 6.4, Section 8.1 and Section 8.2.

Section 6.7 Directors’ and Officers’ Insurance and Indemnification

(a) The Organizational Documents of the Surviving Corporation shall contain provisions no less favorable with respect to exculpation and indemnification than are set forth in Article V of the articles of incorporation of the Company, and Article X of the by-laws of the Company, respectively, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would affect adversely the rights thereunder of individuals who, at or prior to the Effective Time, were directors, officers, employees, fiduciaries or agents of the Company or any of its Subsidiaries.

(b) After the Effective Time, Parent and the Surviving Corporation shall, jointly and severally, to the fullest extent permitted under applicable Law, indemnify and hold harmless, each present and former director and officer of the Company and each Subsidiary (collectively, the “Indemnified Parties”) against all costs and expenses (including attorneys’ fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation (whether arising before or after the Effective Time), whether civil, criminal, administrative or investigative (collectively, "Action"), arising out of or pertaining to any action or omission in their capacity as an officer, director, employee, fiduciary or agent, whether occurring on or before the Effective Time, to the fullest extent permitted under the CCC for directors and officers of California corporations (including the requirement that such Indemnified Party acted in good faith and in a manner such Indemnified Party reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such Indemnified Party's conduct was unlawful), for a period of six years after the Effective Time. In the event of any such claim, action, suit, proceeding or investigation, (i) each Indemnified Party will be entitled, subject to applicable Law, to advancement of expenses incurred in the defense of any such claim, action, suit, proceeding or investigation from the Surviving Corporation within ten Business Days of receipt by Merger Sub or the Surviving Corporation from the Indemnified Party of a request therefor; provided that any person to whom expenses are advanced provides an undertaking, to the
extent then required by the CCC, to repay such advances if it is ultimately determined that such person is not entitled to indemnification, (ii) neither Parent nor the Surviving Corporation shall settle, compromise or consent to the entry of any judgment in any pending or threatened Action to which an Indemnified Party is a party (and in respect of which indemnification could be sought by such Indemnified Party hereunder), unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising out of such Action or such Indemnified Party otherwise consents, and (iii) the Surviving Corporation shall cooperate in the defense of any such matter; provided, however, that neither Parent nor the Surviving Corporation shall be liable for any settlement effected without the Surviving Corporation’s written consent (which consent shall not be unreasonably withheld or delayed); and provided further that, in the event that any claim for indemnification is asserted or made within such six year period, all rights to indemnification in respect of such claim shall continue until the disposition of such claim. The rights of each Indemnified Party under this Section 6.7(b) shall be in addition to any rights such person may have under the Organizational Documents of the Company and the Surviving Corporation or any of their Subsidiaries, or under any Law or under any agreement of any Indemnified Party with the Company or any of its Subsidiaries.

(c) The Surviving Corporation shall cause to be obtained at the Effective Time “tail” insurance policies with a claims period of at least six years from the Effective Time with respect to directors’ and officers’ liability insurance in amount and scope at least as favorable as the Company’s existing policies for claims arising from facts or events that occurred on or prior to the Effective Time as described in Section 6.7(b); provided, however, that in no event shall the Surviving Corporation be required to expend pursuant to this Section 6.7(c) more than a one-time premium payment of no more than 200% of the current annual premium paid by the Company for such insurance; provided, however, that if the cost of the “tail” policy exceeds 200% of the current annual premium paid by the Company for such insurance, the Surviving Corporation will obtain such “tail” policy in such amount and scope as can be obtained for 200% of the current annual premium.

(d) This Section 6.7 is intended to benefit the Indemnified Parties, and shall be binding on all successors and assigns of Parent, Merger Sub, the Company and the Surviving Corporation.

(e) In the event Parent or the Surviving Corporation or any of their respective successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any person, then, and in each such case, proper provision shall be made so that the successors and assigns of Parent or the Surviving Corporation, as the case may be, shall succeed to the obligations set forth in this Section 6.7.

(f) Nothing in this Agreement is intended to, shall be construed to or shall release, waive or impair any rights to directors’ and officers’ insurance claims under any policy that is or has been in existence with respect to the Company or its Subsidiaries any of their officers, directors or employees, it being understood and agreed that the indemnification provided for in this Section 6.7 is not prior to or in substitution for any such claims under such policies.
Section 6.8 Proxy Statement

(a) As promptly as reasonably practicable following the date of this Agreement, the Company shall prepare and file with the SEC the preliminary Proxy Statement. Parent, Merger Sub and the Company shall cooperate with each other in the preparation of the Proxy Statement. The Proxy Statement shall comply as to form and content in all material respects with the applicable provisions of the federal securities Laws. Each of the Company and Parent shall furnish all information concerning itself and its affiliates that is required to be included in the Proxy Statement or that is customarily included in proxy statements prepared in connection with transactions of the type contemplated by this Agreement. Subject to Section 6.4(b), the Company, acting through the Company Board, shall include in the Proxy Statement the recommendation of the Company Board that the shareholders of the Company vote in favor of the Merger and the adoption of this Agreement (the “Company Recommendation”). The Company shall cooperate and provide Parent with a reasonable opportunity to review and comment on the draft of the Proxy Statement (including each amendment or supplement thereto), and all responses to requests for additional information by and replies to comments of the staff of the SEC, prior to filing such with or sending such to the SEC, and Parent and the Company will provide each other with copies of all correspondence with the SEC or its staff or any other government officials with respect to the Proxy Statement. The Company shall use its reasonable best efforts to cause the definitive Proxy Statement to be mailed to the Company’s shareholders as promptly as reasonably practicable after the date on which the Proxy Statement is cleared by the SEC.

(b) If, at any time prior to the Company Shareholders Meeting, any information relating to the Company, Parent or any of their respective affiliates, officers or directors should be discovered by the Company or Parent which should be set forth in an amendment or supplement to the Proxy Statement, so that the Proxy Statement shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, the party which discovers such information shall promptly notify the other parties, and an appropriate amendment or supplement describing such information shall be filed with the SEC and, to the extent required by applicable Law, disseminated to the shareholders of the Company.

Section 6.9 Shareholders Meeting

(a) The Company shall, in accordance with applicable Law, the Company’s Organizational Documents and the rules of The Nasdaq Global Market promptly and duly call, give notice of, convene and hold as promptly as practicable the Company Shareholders Meeting for the purpose of considering and voting upon the Company Voting Proposal. Subject to Section 6.4(b), (i) the Company Board shall make the Company Recommendation and include such Company Recommendation in the Proxy Statement, (ii) the Company Board shall not withhold, withdraw or modify in a manner adverse to Parent, or publicly propose or resolve to withhold, withdraw or modify in a manner adverse to Parent, the Company Recommendation, and (iii) the Company shall take all action that is both reasonable and lawful to solicit from its shareholders proxies in favor of the Company Voting Proposal and shall take all other action reasonably necessary or advisable to secure the vote or consent of the shareholders of the Company required by the rules of The Nasdaq Global Market or the CCC to obtain such approvals. Notwithstanding anything to the contrary contained in this Agreement, the Company, with the mutual agreement of
Parent may adjourn or postpone the Company Shareholders Meeting to the extent necessary to ensure that any required supplement or amendment to the Proxy Statement is provided to the Company’s shareholders or, if as of the time for which the Company Shareholders Meeting is originally scheduled (as set forth in the Proxy Statement) there are insufficient shares of Company Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Company Shareholders Meeting.

(b) Prior to the termination of this Agreement in accordance with Section 8.1, (i) nothing contained in this Agreement shall limit in any way the obligation of the Company to convene and hold the Company Shareholders Meeting in accordance with Section 6.9(a) of this Agreement, and (ii) the Company shall not submit to the vote of its shareholders any Acquisition Proposal other than the transactions contemplated by this Agreement.

Section 6.10 Reasonable Best Efforts.

(a) Upon the terms and subject to the conditions set forth in this Agreement, the Company and Parent shall each use their reasonable best efforts to promptly (i) take, or to cause to be taken, all actions, and to do, or to cause to be done, and to assist and cooperate with the other parties in doing all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement; (ii) obtain from any Governmental Entities or any other third parties any actions, non-actions, clearances, waivers, consents, approvals, permits or orders required to be obtained by the Company, Parent, Merger Sub or any of their respective Subsidiaries in connection with the authorization, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; provided, that in connection therewith, without the prior written consent of Parent which shall not be unreasonably withheld, none of the Company or its Subsidiaries will make or agree to make any material payment or accept any material conditions or obligations, including amendments to existing conditions and obligations; (iii) promptly make all necessary registrations and filings, and thereafter make any other required submissions, with respect to this Agreement and the Merger required under (A) any applicable federal or state securities Laws, (B) the HSR Act and any applicable competition, antitrust or investment Laws of jurisdictions other than the United States, and (C) any other applicable Law; provided, however, that the Company and Parent will cooperate with each other in connection with the making of all such filings, including providing copies of all such filings and attachments to outside counsel for the non-filing party; (iv) furnish all information required for any application or other filing to be made pursuant to any applicable Law in connection with the transactions contemplated by this Agreement; (v) keep the other party informed in all material respects of any material communication received by such party from, or given by such party to, any Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case relating to the transactions contemplated by this Agreement; (vi) permit the other parties to review any material communication delivered to, and consult with the other party in advance of any meeting or conference with, any Governmental Entity relating to the transactions contemplated by this Agreement or in connection with any proceeding by a private party relating thereto, and giving the other party the opportunity to attend and participate in such meetings and conferences; (vii) avoid the entry of, or have vacated or terminated, any decree, order, or judgment that would restrain, prevent or delay the Closing, including defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation
of the transactions contemplated hereby; and (viii) execute and deliver any additional instruments necessary to consummate the transactions contemplated by this Agreement. No parties to this Agreement shall consent to any voluntary delay of the Closing at the behest of any Governmental Entity without the consent of the other parties to this Agreement, which consent shall not be unreasonably withheld. For the avoidance of doubt, Parent, Merger Sub and the Company agree that nothing contained in this Section 6.10(a) shall modify or affect their respective rights and responsibilities under Section 6.10(b). The provisions of this Section 6.10(a) shall not apply to the matters described in Section 5.9 and Section 6.17.

(b) Parent, Merger Sub and the Company agree, and shall cause each of their respective Subsidiaries, to cooperate and to use their reasonable best efforts to prepare, as promptly as practicable and within the applicable regulatory deadlines, any required merger notifications or obtain any government clearances or approvals required for Closing under the HSR Act and any other federal, state or foreign Law designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization, restraint of trade or lessening of competition through merger or acquisition (collectively “Antitrust Laws”), to respond to any government requests for information under any Antitrust Law, and to contest and resist any action, including any legislative, administrative or judicial action, and to seek to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) that restricts, prevents or prohibits the consummation of the Merger or any other transactions contemplated by this Agreement under any Antitrust Law (an “Antitrust Order”). The parties hereto will consult and cooperate with one another, and consider in good faith the views of one another, in connection with, and provide to the other parties in advance, subject to applicable privileges including attorney-client and attorney work product privileges, any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to any Antitrust Law. Without limiting the generality of the foregoing, neither the Parent, Merger Sub, nor any of its Affiliates (or any of their respective subsidiaries) nor (unless such action is conditioned upon the Closing) the Company or any of its Affiliates, shall, under this Section 6.10(b), be required to (i) effect any sale, divestiture or disposition of existing or acquired assets or businesses, or (ii) take or agree to take any other action or agree to any limitation that (A) adversely affects any of the Parent’s, Merger Sub’s, the Company’s and any of its Subsidiaries’ or any of their Affiliates’ businesses, or (B) would have a materially adverse effect on any material benefit Parent or the Company or its stockholders seek to receive from the transactions contemplated by this Agreement.

(c) Notwithstanding anything in this Agreement to the contrary, neither Company, Parent, Merger Sub nor any of their respective Affiliates shall be under any obligation to take any action under this Section 6.10(a) or (b) if the United States Department of Justice or the United States Federal Trade Commission authorizes its staff to seek a preliminary injunction or restraining order to enjoin consummation of the Merger.

Section 6.11 Delisting; NASDAQ Quotation

. The Company agrees to take, or causing to be taken, all actions necessary to delist the Common Stock from The Nasdaq Global Market and to terminate registration under the Exchange Act, and to use its reasonable best efforts to remove from quotation the Common Stock on The Nasdaq Global Market effective as of the Effective Time.

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Section 6.12 Takeover Laws

. If any takeover Law is or becomes applicable to this Agreement, the Merger or the other transactions contemplated by this Agreement, each of the parties and their respective boards of directors shall (a) take all necessary action to ensure that such transactions contemplated hereby may be consummated as promptly as reasonably practicable upon the terms and subject to the conditions set forth in this Agreement and (b) otherwise act to eliminate or minimize the effects of such takeover Law.

Section 6.13 Notification of Certain Matters

. During the Pre-Closing Period, Merger Sub shall give prompt notice to the Company, and the Company shall give prompt notice to Merger Sub, of (a) the occurrence, or failure to occur, of any event, which occurrence or failure to occur is reasonably likely to cause any representation or warranty of such party contained in this Agreement to be untrue or inaccurate in a manner that would cause the conditions set forth in Section 7.2(a) or Section 7.3(a), as applicable, not to be satisfied, in each case at any time during the Pre-Closing Period, or (b) any failure of Parent, Merger Sub or the Company, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement in a manner that would cause the conditions set forth in Section 7.2(b) or Section 7.3(b), as applicable, not to be satisfied. Notwithstanding the above, the delivery of any notice pursuant to this Section will not limit or otherwise affect the remedies available hereunder to the party receiving such notice or the conditions to such party’s obligation to consummate the Merger.

Section 6.14 Exemption from Liability Under Section 16

. Prior to the Closing, the Company shall take all such steps as may be reasonably required to cause to be exempt under Rule 16b-3 promulgated under the Exchange Act any dispositions of Company Common Stock (including derivative securities with respect to Company Common Stock) which will result from the transactions contemplated by Articles II and III of this Agreement by each officer or director who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company.

Section 6.15 Resignations

. The Company shall obtain and deliver to Merger Sub at the Closing evidence reasonably satisfactory to Merger Sub of the resignation, effective as of the Effective Time, of all directors of the Company and its Subsidiaries (except those designated by Merger Sub to the Company in writing prior to the Closing).

Section 6.16 Existing Standstill Agreements

. Except as provided in Section 6.4, the Company shall enforce all standstill or similar agreements under confidentiality agreements or executed by third-parties in connection therewith that have been signed prior to the date hereof and are still currently in effect.
ARTICLE VII

CONDITIONS

Section 7.1 Conditions to Each Party’s Obligation to Effect the Merger

The obligations of the Company, on the one hand, and Parent and Merger Sub, on the other hand, to consummate the Merger are subject to the satisfaction (or waiver by the Company, Parent and Merger Sub, if permissible under applicable Law) of the following conditions:

(a) the Company Voting Proposal shall have received the Company Shareholder Approval at the Company Meeting at which a quorum is present, in accordance with the CCC;

(b) no Governmental Entity having jurisdiction over the Company, Parent or Merger Sub shall have issued an order, decree or ruling (i) enjoining or otherwise prohibiting consummation of the Merger substantially on the terms contemplated by this Agreement, or (ii) compelling the Company, Parent, Merger Sub or any of their respective Subsidiaries to dispose of or hold separate any significant portion of the business or assets of the Company, Parent, Merger Sub or any of their respective Subsidiaries, as a result of the Merger or any of the other transactions contemplated by this Agreement; and

(c) any applicable waiting period under the HSR Act and any other applicable foreign Antitrust Laws shall have expired or been terminated.

Section 7.2 Conditions to the Obligations of Parent and Merger Sub

The obligations of Parent and Merger Sub to consummate the Merger are subject to the satisfaction (or waiver by Parent and Merger Sub) of the following further conditions:

(a) the representations and warranties of the Company contained in this Agreement (i) that are not qualified by Company Material Adverse Effect shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date) except where the failure of such representations and warranties to be so true and correct would not, individually or in the aggregate, have a Company Material Adverse Effect and (ii) that are qualified by Company Material Adverse Effect shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date); provided, however, that (A) the representations and warranties set forth in Section 4.2(a) and Section 4.8(a)(iii) shall be true and correct in all respects (except for immaterial deviations) as of the date hereof and as of the Closing Date as though made on and as of the Closing Date; and (B) the representations and warranties set forth in Section 4.5, shall be true and correct in all material respects, in each case, as of the date hereof and as of the Closing Date; and (C) the representations and warranties set forth in Section 4.3, shall be true and correct in all respects, in each case, as of the date hereof and as of the Closing Date as though made on and as of the Closing Date, except where the failure of such representations and warranties to be so true and correct would not, individually or in the aggregate, have a materially and adversely affect the ability of the Company to consummate the transactions contemplated hereby;
(b) the Company shall have performed in all material respects its obligations hereunder required to be performed by it at or prior to the Closing;

(c) Parent shall have received a certificate signed by the chief financial officer of the Company, dated as of the Closing Date, to the effect that, to the knowledge of such officer, the conditions set forth in Section 7.2(a) and Section 7.2(b) have been satisfied; and

(d) since the date of this Agreement, there has not been any Company Material Adverse Effect.

Section 7.3 Conditions to the Obligations of the Company

. The obligations of the Company to consummate the Merger are subject to the satisfaction (or waiver by the Company) of the following further conditions:

(a) (i) the representations and warranties of Parent and Merger Sub set forth in Section 5.9 shall be true and correct as of the Effective Time as though made on and as of the Effective Time and (ii) each of the representations and warranties of Parent and Merger Sub set forth in Article V (other than in Section 5.9 and Section 5.11) (A) that are not qualified by Parent Material Adverse Effect shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date) except where the failure of such representations and warranties to be so true and correct would not, individually or in the aggregate, have a Parent Material Adverse Effect and (B) that are qualified by Parent Material Adverse Effect shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date);

(b) each of Parent and Merger Sub shall have performed in all material respects all of the respective obligations hereunder required to be performed by Parent or Merger Sub, as the case may be, at or prior to the Closing; and

(c) the Company shall have received a certificate signed by an executive officer of Parent, dated as of the Closing Date, to the effect that, to the knowledge of such officer, the conditions set forth in Section 7.3(a) and Section 7.3(b) have been satisfied.

Section 7.4 Frustration of Closing Conditions

. None of the Company, Parent or Merger Sub may rely on the failure of any condition set forth in Section 7.1, Section 7.2 or Section 7.3, as the case may be, to be satisfied if such failure was caused by such party’s failure to act in good faith or use its reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 6.10(a).
ARTICLE VIII

TERMINATION

Section 8.1 Termination

. Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated and the Merger contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after Company Shareholder Approval of the Company Voting Proposal, by written notice by the terminating party to the other party specifying the provision hereof pursuant to which such termination is effected:

(a) by the mutual consent of the Company and Parent;

(b) by either the Company or Parent:

(i) if the Merger shall not have occurred on or prior to the five month anniversary of the date hereof (the “Termination Date”); provided, however, that the right to terminate this Agreement under this Section 8.1(b)(i) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the primary cause of the failure of the Merger to occur on or prior to the Termination Date;

(ii) if any Governmental Entity having jurisdiction over the Company, Parent or Merger Sub shall have issued an order, decree or ruling or taken any other action, in each case permanently enjoining or otherwise prohibiting the consummation of the Merger substantially as contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and non appealable; or

(iii) if the Company Shareholders Meeting shall have concluded without the Company Shareholder Approval of the Company Voting Proposal having been obtained in accordance with the CCC.

(c) by the Company:

(i) upon a breach of any covenant or agreement on the part of Parent or Merger Sub, or if any representation or warranty of Parent or Merger Sub shall be untrue, in any case such that the conditions set forth in Section 7.3(a) or Section 7.3(b) would not be satisfied (assuming that the date of such determination is the Closing Date); provided that if such breach is curable by Parent and Merger Sub through the exercise of their reasonable best efforts and Parent and Merger Sub continue to exercise such reasonable best efforts, the Company may not terminate this Agreement under this Section 8.1(c)(i); or

(ii) prior to the Company Shareholders Meeting, under the circumstances and to the extent permitted, and subject to the terms and conditions of, Section 6.4(b) and provided that the Termination Fee referenced in Section 8.3(b)(ii) shall have been paid by the Company to such Person or Person(s) as shall have been designated in writing by Parent.
(d) by Parent:

(i) upon a breach of any covenant or agreement on the part of the Company, or if any representation or warranty of the Company shall be untrue, in any case such that the conditions set forth in Section 7.2(a) or Section 7.2(b) would not be satisfied (assuming that the date of such determination is the Closing Date); provided that if such breach is curable by the Company through the exercise of its reasonable best efforts and the Company continues to exercise such reasonable best efforts, Parent may not terminate this Agreement under this Section 8.1(d)(i); or

(ii) if (A) the Company Board shall have failed to include the Company Recommendation in the Proxy Statement or shall have effected a Change of Recommendation, (B) the Company Board shall have approved or recommended, or proposed publicly to approve or recommend, any Alternative Acquisition Agreement other than this Agreement, and/or permitted the Company to enter into an Alternative Acquisition Agreement related to an Acquisition Proposal, (C) the Company shall have failed to call the Company Shareholders Meeting in accordance with Section 6.9 or shall have failed to deliver the Proxy Statement in accordance with Section 6.8 in material breach of such Sections and such failure shall not be due to any material breach by Parent or Merger Sub of their obligations under Section 6.8(b), or (D) a tender offer or exchange offer for outstanding shares of Common Stock shall have been commenced (other than by Parent or Merger Sub or their respective Affiliates) and the Company Board recommends that the shareholders of the Company tender their shares in such tender or exchange offer or within ten Business Days after the commencement of such tender or exchange offer, the Company Board fails to recommend rejection (or subsequently modifies a recommendation of rejection) of such offer.

Section 8.2 Effect of Termination

In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall forthwith become void, and there shall be no liability under this Agreement on the part of any party hereto except (i) as provided in Section 8.3, and (ii) each party will be fully liable for any liabilities incurred or direct damages actually suffered (excluding any indirect, punitive, consequential, special or incidental damages) and incurred by the other parties as a result of such first party’s willful failure to perform its covenants or willful breach of its representations or warranties contained in this Agreement. Notwithstanding the foregoing, the provisions of Section 6.3(b), this Section 8.2, Section 8.3 and Article IX shall survive any such termination).

Section 8.3 Fees and Expenses.

(a) Except as provided in Section 8.3(c), all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees and expenses, whether or not the Merger or any other transaction contemplated hereby are consummated; provided, however, that the fees and expenses incurred in connection with or related to (x) the preparation, printing, filing and mailing (excluding legal and accounting fees and expenses) of the Proxy Statement shall be borne equally by Parent and the Company, and (y) any required merger notifications or obtaining any governmental clearances or approvals required for Closing under any Antitrust Laws (including the HSR Act), shall be borne equally by Parent and the Company.
(b) The Company shall pay to such Person or Person(s) as shall be designated in writing by Parent the Termination Fee, if:

(i) this Agreement is terminated pursuant to Section 8.1(d)(ii);

(ii) this Agreement is terminated pursuant to Section 8.1(c)(ii); or

(iii) if (A) this Agreement is terminated pursuant to Section 8.1(b)(i) (provided, that the Termination Fee shall not be payable if Parent’s or Merger Sub’s failure to fulfill any obligation under this Agreement has been the primary cause of the failure of the Merger to occur on or prior to the Termination Date), Section 8.1(b)(iii) or Section 8.1(d)(i) and (y) at any time after the date hereof and prior to such termination (1) any Acquisition Proposal shall have been made known to the Company or publicly disclosed or (2) any Person actively makes a non-exempt “solicitation” under Rule 14a-1(l) of the Exchange Act in opposition to the adoption of this Agreement by the shareholders of the Company, and (B) within 12 months after any such termination, the Company Board shall have recommended or the Company or any of its Affiliates consummated, or becomes a party to, any Alternative Acquisition Agreement with respect to, any Acquisition Proposal (which need not be the same Acquisition Proposal that was made or publicly disclosed prior to the Company Meeting).

For purposes of this Agreement, “Termination Fee” shall mean $9,600,000. The Termination Fee due under Section 8.3(b)(i) shall be paid by the Company to Parent, or such Person or Person as shall be designated in writing by Parent, by wire transfer of same-day funds within two Business Days following termination of this Agreement. The Termination Fee due under Section 8.3(b)(ii) shall be paid by the Company to Parent, or such Person or Person as shall be designated in writing by Parent, immediately prior to termination of this Agreement pursuant to Section 8.1(c)(ii). The Termination Fee due under Section 8.3(b)(iii) shall be paid to Parent, or such Person or Person as shall be designated in writing by Parent, by wire transfer of same-day funds within two Business Days following the recommendation of the Company Board to enter into, or the actual entry into the Alternative Acquisition Agreement or, in the absence thereof, the consummation of the Acquisition Proposal, as applicable.

(c) In the event that this Agreement is terminated under the circumstances described in Section 8.3(b)(iii)(A) (provided, that the requirements of clause (y) of Section 8.3(b)(iii)(A) shall be disregarded for this purpose in the event this Agreement is terminated pursuant to Section 8.1(b)(iii)), then the Company shall pay to Parent, within three Business Days of such termination, an amount equal to the reasonable and documented out-of-pocket fees and expenses (including, all legal, accounting, financial and tax, environmental, appraisals, insurance and benefits, consulting and expert opinions, background investigations, technology, travel expenses and other expenses such as research, telecommunications charges, photocopying, delivery and postage) incurred by Parent and Merger Sub after the date hereof in connection with the investigation, negotiation, documentation and closing of
the Merger up to a maximum of $2,000,000, as such amount may be increased by mutual agreement of Parent and the Company Board (the "Parent Expenses") (provided, that in the event this Agreement is terminated pursuant to Section 8.1(b)(iii) the phrase "after the date hereof" in the definition of "Parent Expenses" shall be ignored for this purpose only); provided, however, the existence of circumstances that could require the Termination Fee to become subsequently payable by the Company pursuant to Section 8.3(b) shall not relieve the Company of its obligations to pay the Parent Expenses pursuant to this Section 8.3(c) or Section 8.3(a); provided, further, however, that the payment by the Company of Parent Expenses pursuant to this Section 8.3(c) or Section 8.3(a) shall not relieve the Company of any subsequent obligation to pay the Termination Fee pursuant to Section 8.3(b) (but the Company shall be entitled to deduct from the Termination Fee payable the amount of any Parent Expenses previously paid to Parent pursuant to this Section 8.3(c) or Section 8.3(a)).

(d) For purposes of this Section 8.3, the references to “10%” in the definition of Acquisition Proposal shall be deemed to be references to “50%.”

(e) If the Company fails to pay when due any amounts payable to the other under this Section 8.3 within the specified times for any such payment, then (i) then the Company shall reimburse Parent for all reasonable costs and expenses (including reasonable fees and expenses of counsel) incurred in connection with the collection of such overdue amount and the enforcement by Parent of its rights under this Section 8.3, and (ii) the Company shall pay to Parent interest on such overdue amount (for the period commencing as of the date such overdue amount was originally required to be paid and ending on the date such overdue amount is actually paid in full) at a rate per annum equal to 3% over the “prime rate” (as announced by The Wall Street Journal) in effect on the date such overdue amount was originally required to be paid.

(f) The parties acknowledge that the agreements contained in this Section 8.3 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the parties would not enter into this Agreement. Payment of the Termination Fee described in Section 8.3(b) shall not be in lieu of damages incurred in the event of a breach of this Agreement described in clause (ii) of Section 8.2, but is otherwise the sole and exclusive remedy of Parent and Merger Sub and any of their respective former, current, or future general or limited partners, stockholders, managers, members, directors, officers, Affiliates or agents for any loss suffered as a result of the failure of the Merger to be consummated. For the avoidance of doubt, other than as provided in clause (ii) of Section 8.2, the maximum aggregate liability of the Company shall be limited to an amount equal to the Termination Fee, plus any amounts that become due under Section 8.3(f), and in no event shall Parent, Merger Sub or any of their respective Affiliates seek (i) any damages in excess of such amounts, (ii) any damages in any amount if the Termination Fee has been paid or (iii) any other recovery, judgment, or damages of any kind, including equitable relief or consequential, indirect, or punitive damages, against the Company or any of its Affiliates in connection with this Agreement or the transactions contemplated hereby.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Non Survival of Representations, Warranties and Covenants

The representations, warranties and covenants in this Agreement and in any certificate delivered pursuant hereto shall terminate at the Effective Time; provided, however, that this Section 9.1 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.
Section 9.2 Notices

. All notices, requests, claims, demands and other communications hereunder shall be in writing in the English language and shall be given (and shall be deemed to have been duly given upon confirmation of receipt) by delivery in person, by a nationally recognized next day courier service, or by facsimile transmission. In addition, notices, claims, demands and other communications hereunder may be given by email with pdf attachments (and shall be deemed to have been duly given upon confirmation of receipt), provided that such email notice shall be deemed to be duly given only if all copies required hereunder were also given and receipt confirmed. All notices hereunder shall be delivered to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.2):

(a) if to Parent or Merger Sub:

Microchip Technology Incorporated
2355 W. Chandler Blvd.
Chandler, Arizona 85224
Facsimile No: (480) 792-4112
Attention: Steve Sanghi, Chairman, President and Chief Executive Officer
email: steve.sanghi@microchip.com

with a copy to:

Wilson Sonsini Goodrich and Rosati, P.C.
One Market Plaza
Spear Tower, Suite 3300
San Francisco, California 94105
Facsimile No: (415) 947-2099
Attention: Robert T. Ishii
email: rishii@wsgr.com

(b) if to the Company:

Strategic Committee of the Board of Directors of Silicon Storage Technology, Inc.
5201 Great America Parkway, Suite 270
Santa Clara, California 95054
Facsimile No: (408) 894-7983
Attention: Ronald Chwang, Chairman of the Strategic Committee
email: ronaldchwang@idsoftcapital.com

with a copy to:

Shearman & Sterling LLP
525 Market Street
San Francisco, California 94105
Facsimile No: (415) 616 1199
Attention: Steve L. Camahort
email: steve.camahort@shearman.com
Section 9.3 Severability

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 9.4 Entire Agreement; Assignment

This Agreement and the Confidentiality Agreement constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and undertakings, both written and oral, among the parties hereto, or any of them, with respect to the subject matter hereof and thereof. This Agreement shall not be assigned (whether pursuant to a merger, by operation of Law or otherwise), except that Parent and Merger Sub may assign all or any of their rights and obligations hereunder to any direct or indirect wholly owned subsidiary of Parent; provided, however, that no such assignment shall relieve the assigning party of its obligations hereunder if such assignee does not perform such obligations.

Section 9.5 Third Party Beneficiaries

Except for (i) the provisions set forth in Section 6.7, (ii) the right of the Company’s shareholders to receive the Merger Consideration at the Effective Time, and (iii) the right of the holders of Options to receive the Per Share Option Consideration at the Effective Time, this Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 9.6 Specific Performance

Each of the parties hereto acknowledges and agrees that, in the event of any breach of this Agreement, each nonbreaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in accordance with Section 9.7 without bond or other security being required.
Section 9.7 Governing Law

This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Delaware applicable to contracts executed in and to be performed in that State; provided, however, that provisions that are required under the Laws of the State of California to be governed by the Laws of the State of California will be so governed. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in the Delaware Court of Chancery. The parties hereto hereby (a) submit to the exclusive jurisdiction of the Delaware Court of Chancery for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named court, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by the above-named court.

Section 9.8 Waiver of Jury Trial

Each of the parties hereto hereby waives to the fullest extent permitted by applicable Law any right it may have to a trial by jury with respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement or the transactions contemplated hereby. Each of the parties hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce that foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the transactions contemplated hereby, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.8.

Section 9.9 Amendment

This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective boards of directors or partners at any time prior to the Effective Time; provided, however, that, after the Company Shareholder Approval of the Company Voting Proposal, no amendment shall be made which by Law requires further approval by such shareholders without such further approval. This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto.

Section 9.10 Waiver

At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any inaccuracy in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any agreement of any other party or any condition to its own obligations contained herein. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby.
Section 9.11 **Headings**

The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 9.12 **Counterparts**

This Agreement may be executed and delivered (including by facsimile transmission) in two or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Signatures of the parties transmitted by facsimile, PDF or other electronic file shall be deemed to be their original signatures for all purposes and the exchange of copies of this Agreement and of signature pages by facsimile transmission, PDF or other electronic file shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. At the request of any party hereto, all parties hereto agree to execute an original of this Agreement as well as any facsimile, telecopy, PDF or other reproduction hereof.

[Remainder of page intentionally left blank.]
IN WITNESS WHEREOF, the Company, Parent and Merger Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

COMPANY
Silicon Storage Technology, Inc.

By: /s/ Bertrand Cambou
Name: Bertrand Cambou
Title: President

PARENT
Microchip Technology Incorporated

By: /s/ Steve Sanghi
Name: President
Title: Chairman, President and CEO

MERGER SUB
Sun Acquisition Corporation

By: /s/ Eric Bjornholt
Name: Eric Bjornholt
Title: Director, and CFO
CERTIFICATION

I, Steve Sanghi, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2010

/s/ Steve Sanghi
Steve Sanghi
President and CEO
CERTIFICATION

I, J. Eric Bjornholt, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2010

/s/ J. Eric Bjornholt
J. Eric Bjornholt
Vice President and CFO
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 December 31, 2009 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: February 9, 2010

I, J. Eric Bjornholt, 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 December 31, 2009 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/ J. Eric Bjornholt
Name: J. Eric Bjornholt
Title: Vice President and Chief Financial Officer
Date: February 9, 2010