

MICROCHIP TECHNOLOGY INC
Form DEF 14A
June 30, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Microchip Technology Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:
- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

MICROCHIP TECHNOLOGY INCORPORATED

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

August 18, 2006

TIME: 9:00 a.m. Mountain Standard Time

PLACE: Microchip Technology Incorporated
2355 West Chandler Boulevard, Chandler, Arizona 85224-6199

- ITEMS OF BUSINESS:**
- (1) To elect Directors to serve until the next annual meeting of stockholders or until their successors are elected and qualified;
 - (2) To approve an amendment to our 2004 Equity Incentive Plan that will remove the 30% limitation on the number of shares that can be granted as restricted stock units so that we can continue granting restricted stock units instead of stock options as our primary equity compensation incentive;
 - (3) To approve an Executive Management Incentive Compensation Plan to replace our existing plan as it applies to executive officers in order to enhance our ability to obtain tax deductions for performance-based compensation under 162(m) of the Internal Revenue Code of 1986, as amended;
 - (4) To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2007; and
 - (5) To transact such other business as may properly come before the annual meeting or any adjournment(s) thereof.

RECORD DATE: Holders of Microchip common stock of record at the close of business on June 22, 2006 are entitled to vote at the annual meeting.

ANNUAL REPORT: Microchip's 2006 Annual Report, which is not a part of the proxy soliciting material, is enclosed.

PROXY: It is important that your shares be represented and voted at the annual meeting. You can vote your shares by completing and returning the proxy card sent to you. Stockholders who hold their shares in street name may also have a choice of voting their shares over the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on the proxy card sent to you. You can revoke your proxy at any time prior to its exercise at the annual meeting by following the instructions in the accompanying proxy statement.

Chandler, Arizona
June 30, 2006

MICROCHIP TECHNOLOGY INCORPORATED
2355 West Chandler Boulevard
Chandler, Arizona 85224-6199

PROXY STATEMENT

You are cordially invited to attend our annual meeting on Friday, August 18, 2006, beginning at 9:00 a.m., Mountain Standard Time. The annual meeting will be held at our Chandler facility located at 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199.

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Microchip Technology Incorporated of proxies to be voted at Microchip's 2006 annual meeting of stockholders and at any adjournment(s) thereof.

Our fiscal year begins on April 1 and ends on March 31. References in this proxy statement to fiscal 2006 refer to the 12-month period from April 1, 2005 through March 31, 2006, and references to fiscal 2005 refer to the 12-month period from April 1, 2004 through March 31, 2005.

On June 22, 2006, the closing price of a share of our common stock as reported by The NASDAQ National Market® was \$32.17.

We anticipate first mailing this proxy statement and accompanying form of proxy on June 30, 2006 to holders of Microchip's common stock on June 22, 2006, the Record Date for the annual meeting.

PROXIES AND VOTING PROCEDURES

YOUR VOTE IS IMPORTANT. Because many stockholders cannot attend the annual meeting in person, it is necessary that a large number of stockholders be represented by proxy. Stockholders who hold their shares in street name may have a choice of voting over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you. Under Delaware law, stockholders may submit proxies electronically. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

You can revoke your proxy at any time before it is exercised by timely delivery of a properly executed, later-dated proxy (including an Internet or telephone vote if these options are available to you) or by voting by ballot at the annual meeting.

The method by which you vote will in no way limit your right to vote at the annual meeting if you later decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record, to be able to vote at the annual meeting.

All shares entitled to vote and represented by properly completed proxies received prior to the annual meeting and not revoked will be voted at the annual meeting in accordance with the instructions on such proxies. **IF YOU DO NOT INDICATE HOW YOUR SHARES SHOULD BE VOTED ON A MATTER, THE SHARES REPRESENTED BY YOUR PROPERLY COMPLETED PROXY WILL BE VOTED AS OUR BOARD OF DIRECTORS RECOMMENDS.**

If any other matters are properly presented at the annual meeting for consideration, including, among other things, consideration of a motion to adjourn the annual meeting to another time or place, the persons named as proxies and acting thereunder will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. At the date this proxy statement went to press, we did not anticipate that any other matters would be raised at the annual meeting.

Stockholders Entitled to Vote

Stockholders of record at the close of business on the Record Date, June 22, 2006, are entitled to notice of and to vote at the annual meeting. Each share is entitled to one vote on each matter properly brought before the annual meeting. On the Record Date, there were 214,646,065 shares of our common stock issued and outstanding.

In accordance with Delaware law, a list of stockholders entitled to vote at the annual meeting will be available at the annual meeting on August 18, 2006, and for 10 days prior to the annual meeting at 2355 West Chandler Boulevard, Chandler, Arizona, between the hours of 9:00 a.m. and 4:30 p.m., Mountain Standard Time.

Required Vote

Quorum, Abstentions and Broker Non-Votes

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e., in street name) does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Under the rules of the New York Stock Exchange (NYSE), which apply to NYSE member brokers trading in non-NYSE stock, brokers have discretionary authority to vote shares on certain routine matters if customer instructions are not provided. Proposals One, Three, and Four to be considered at the annual meeting may be treated as routine matters. Consequently, if you do not return a proxy card, your broker may have discretion to vote your shares on such matters.

Pursuant to NYSE regulations, brokers and other nominees that are NYSE member organizations are prohibited from voting in favor of proposals relating to equity compensation plans unless they receive specific instructions from the beneficial owner of the shares to vote on such matter. NASD member brokers are also prohibited from voting on such proposals without specific instructions from the beneficial owners of the shares entitled to vote on that matter. Thus, if you hold shares through a broker or other nominee that is an NASD or NYSE member organization, such shares will only be voted in favor of Proposal Two if you have provided specific voting instructions to your broker or other nominee to vote your shares in favor of such proposal.

Election of Directors (Proposal One)

A plurality of the votes duly cast is required for the election of Directors (i.e., the five nominees receiving the greatest number of votes will be elected). Abstentions and broker non-votes will not affect the election of Directors.

Amendment to 2004 Equity Incentive Plan and Approval of Executive Management Incentive Compensation Plan (Proposals Two and Three)

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to adopt the amendment to our 2004 Equity Incentive Plan described in Proposal Two and to approve our Executive Management Incentive Compensation Plan described in Proposal Three.

Abstentions will have the same effect as voting against these proposals. Broker non-votes are not counted for purposes of approving the amendment to our 2004 Equity Incentive Plan or approving our Executive Management Incentive Compensation Plan, and thus will not affect the outcome of the voting on such proposals.

Ratification of Accounting Firm (Proposal Four)

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required for ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2007. Abstentions and broker non-votes will not affect the voting on such matter.

Electronic Access to Proxy Statement and Annual Report

This proxy statement and our 2006 Annual Report are available at the Corporate/Investors Information section under Annual Reports on www.microchip.com. Our stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail.

If you are a stockholder of record, you can choose this option and save us the cost of producing and mailing these documents by marking the appropriate box on your proxy card or by calling our Investor Relations Department at 480-792-7761. If you choose to view future proxy statements and annual reports over the Internet, you will receive a proxy card in the mail next year with instructions containing the Internet address of those materials. Your choice will remain in effect until you contact our Investor Relations Department and instruct us otherwise. You do not have to elect Internet access each year.

If you hold your Microchip stock through a bank, broker or other holder of record, please refer to the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet. Most stockholders who hold their Microchip stock through a bank, broker or other holder of record and who elect electronic access will receive an e-mail message next year containing the Internet address to use to access Microchip's proxy statement and annual report.

Cost of Proxy Solicitation

Microchip will pay the cost of soliciting proxies. Proxies may be solicited on behalf of Microchip by its Directors, officers or employees in person or by telephone, facsimile or other electronic means. We may also reimburse brokerage firms and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of Microchip common stock.

THE BOARD OF DIRECTORS

Meetings of the Board of Directors

Our Board of Directors met four times in fiscal 2006. During fiscal 2006, each Director attended 100% of the meetings of the Board of Directors and of the committees on which such Director served. During fiscal 2003, the Board of Directors implemented the practice of meeting in executive session on a periodic basis without management or management Directors (i.e., Mr. Sanghi) present, and continued this practice through

fiscal 2006. The Board of Directors has determined that each of Messrs. Chapman, Day, Hugo-Martinez and Meyercord is an independent Director as defined by applicable SEC rules and NASDAQ listing standards.

Communications from Stockholders

Stockholders may communicate with the Board of Directors or individual members of the Board of Directors, provided that all such communication is submitted in writing to the attention of the Secretary at Microchip Technology Incorporated, 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199, who will then forward such communication to the appropriate Director or Directors.

Committees of the Board of Directors

The following table lists our three Board committees, the Directors who currently serve on them and the number of committee meetings held in fiscal 2006:

Membership on Board Committees

Name	Audit	Compensation	Nominating and Governance
Mr. Chapman	C		•
Mr. Day		•	C
Mr. Hugo-Martinez	•	C	•
Mr. Meyercord	•		•
Meetings held in Fiscal 2006	11	3	3

C = *Chair*

• = *Member*

Audit Committee

The responsibilities of our Audit Committee are described in the committee charter. A copy of the Audit Committee Charter, as amended and restated through May 11, 2004, is available at the Corporate/Investors Information section under Mission Statement/Corporate Governance on www.microchip.com.

Our Board of Directors has determined that all members of the Audit Committee are independent Directors as defined by applicable SEC rules and NASDAQ listing standards. The Board of Directors has also determined that each of Messrs. Chapman, Hugo-Martinez and Meyercord meet the requirements for being an audit committee financial expert as defined by applicable SEC rules.

In fiscal 2004, the Audit Committee adopted a policy with respect to (i) the receipt, retention and treatment of complaints received by us regarding questionable accounting, internal accounting controls or auditing matters; (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting, internal accounting controls or auditing matters; and (iii) the prohibition of harassment, discrimination or retaliation arising from submitting concerns regarding questionable accounting, internal accounting controls or auditing matters or participating in an investigation regarding questionable accounting, internal accounting controls or auditing matters. This policy, called *Legal Compliance*, was created in accordance with applicable SEC rules and NASDAQ listing requirements. A copy of this policy is available at the Corporate/Investors Information section under Mission Statement/Corporate Governance on www.microchip.com.

Compensation Committee

The Compensation Committee has oversight responsibility for the compensation and benefit programs for our executive officers and other employees, including administration of our equity incentive and employee stock purchase plans. The Board of Directors has determined that all members of the Compensation Committee are independent Directors as defined by applicable SEC rules and NASDAQ listing standards. For more information on our Compensation Committee, please turn to the *Compensation Committee Report on Executive Compensation* at page 22.

Nominating and Governance Committee

The responsibilities of our Nominating and Governance Committee are described in the committee charter which is available at the Corporate/Investors Information section under Mission Statement/Corporate Governance on www.microchip.com. The Board of Directors has determined that all members of the Nominating and Governance Committee are independent Directors as defined by applicable SEC rules and NASDAQ listing standards.

When considering a candidate for a Director position, the Nominating and Governance Committee looks for demonstrated character, judgment, relevant business, functional and industry experience, and a high degree of skill. The Nominating and Governance Committee evaluates Director nominees recommended by a stockholder in the same manner as it would any other nominee. The Nominating and Governance Committee will consider nominees recommended by stockholders provided such recommendations are made in accordance with procedures described in this proxy statement under *Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2007 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals* at page 30. We do not pay any third party to identify or assist in identifying or evaluating potential nominees for Director.

Attendance at the Annual Meeting of Stockholders

All Directors are encouraged, but not required, to attend our annual meeting of stockholders. All Directors were in attendance at the 2005 annual meeting of stockholders.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors has adopted a written charter setting out the purposes and responsibilities of the Audit Committee. The Board of Directors and the Audit Committee review and assess the adequacy of the charter on an annual basis. A copy of the Audit Committee Charter, as amended and restated through May 11, 2004, is available at the Corporate/Investors Information section under Mission Statement/Corporate Governance on www.microchip.com.

Each of the Directors who serves on the Audit Committee meets the independence and experience requirements of the SEC rules and NASDAQ listing standards. What this means is that the Microchip Board of Directors has determined that no member of the Audit Committee has a relationship to Microchip that may interfere with such member's independence from Microchip and its management, and that all members have the required knowledge and experience to perform their duties as committee members.

We have received from Ernst & Young LLP the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and have discussed with Ernst & Young LLP their independence from Microchip. We also discussed with Ernst & Young LLP all matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees). We have considered whether and determined that the provision of the non-audit services rendered to us by Ernst & Young LLP during fiscal 2006 was compatible with maintaining the independence of Ernst & Young LLP.

We have reviewed with management our audited annual financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 and filed with the SEC, as well as the unaudited financial statements filed with our quarterly reports on Form 10-Q. We also met with both management and Ernst & Young LLP to discuss those financial statements.

Based on these reviews and discussions, we recommended to the Board of Directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 for filing with the SEC.

By the Audit Committee of the Board of Directors(1):

Matthew W. Chapman (Chairman)

Albert J. Hugo-Martinez

Wade F. Meyercord

(1) The Report of the Audit Committee is not soliciting material and is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filings of Microchip under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this proxy statement and irrespective of any general incorporation language contained in such filings.

Director Compensation

Director Fees

In fiscal 2006, non-employee Directors received a \$20,000 annual retainer (which increased to \$24,000 on April 1, 2006) paid in quarterly installments, and \$2,500 (which increased to \$2,650 on April 1, 2006) for each meeting attended in person. Directors do not receive any compensation for telephonic meetings of the Board of Directors or for meetings of committees of the Board. Effective April 1, 2005, the Chairman of the Audit Committee also receives an annual retainer of \$3,000 paid in quarterly installments.

Equity Compensation

Under the terms of our 2004 Equity Incentive Plan, each non-employee Director is automatically granted:

- an option to purchase 12,000 shares of common stock upon his or her first election to the Board of Directors, and
- an option to purchase 6,000 shares of common stock immediately following the annual election of Directors, granted as of the first business day of the month in which the annual stockholders meeting is held.

On August 1, 2005, each of Messrs. Chapman, Day, Hugo-Martinez and Meyercord was granted an option to acquire 6,000 shares of common stock at an exercise price of \$31.01 per share. Each such option vests in a series of 12 equal and successive monthly installments starting one month after the grant date.

Compensation Committee Interlocks and Insider Participation

In fiscal 2006, Mr. Day and Mr. Hugo-Martinez, two of our independent Directors, served on the Compensation Committee. Neither Mr. Day nor Mr. Hugo-Martinez had any related party transaction with Microchip during fiscal 2006 other than service as a Director. In addition, neither of such directors has a relationship which would constitute a compensation committee interlock under applicable SEC rules.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) and related rules under the Securities Exchange Act of 1934 require our Directors, executive officers and stockholders holding more than 10% of our common stock to file reports of holdings and transactions in Microchip stock with the SEC and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us during fiscal 2006, and written representations from our Directors and executive officers that no other reports were required, we believe that all Section 16(a) filing requirements applicable to our Directors, executive officers and stockholders holding more than 10% of our common stock were met for fiscal 2006. In addition, based on our review of such information, we determined that during fiscal 2004, although Mr. Day filed a timely Form 5, one transaction was inadvertently omitted from such Form 5, and an amended Form 5 was filed during fiscal 2006 to properly reflect such transaction.

PROPOSAL ONE

ELECTION OF DIRECTORS

A board of five Directors will be elected at the annual meeting. The persons named in the proxy card will vote such proxy for the election of each of the nominees named below, unless the named person indicates that your vote should be withheld. Each of the nominees is currently serving as a Director and has agreed to continue serving if re-elected. If any of the nominees becomes unable or declines to serve as a Director at the time of the annual meeting, the persons named in the proxy card will vote such proxy for any nominee designated by the current Board of Directors to fill the vacancy. We do not expect that any of the nominees will be unable or will decline to serve as a Director.

The term of office of each person who is elected as a Director at the annual meeting will continue until the 2007 annual meeting of stockholders or until a successor has been elected and qualified.

The Board of Directors recommends that stockholders vote FOR the nominees listed below.

**Information on Nominees for Director
(as of June 30, 2006)**

Name	Age	Position(s) Held
Steve Sanghi	50	Chairman, President and CEO
Albert J. Hugo-Martinez	60	Director
L.B. Day	61	Director
Matthew W. Chapman	55	Director
Wade F. Meyercord	65	Director

Steve Sanghi is currently, and has been since August 1990, a Director and President of Microchip Technology Incorporated. Since October 1991, he has served as CEO of Microchip, and since October 1993, as Chairman of the Board of Directors. On May 1, 2004, he became a member of the Board of Directors of Xyratex Ltd., a storage and network technology company.

Albert J. Hugo-Martinez has served as a Director of Microchip since October 1990. Since February 2000, he has served as CEO of Hugo-Martinez Associates, a consulting and advisory firm. Mr. Hugo-Martinez was also a member of the Board of Directors of Ramtron International Corporation, a non-volatile semiconductor memory company, from March 1999 to February 2003, and was named Chairman of the Board in February 2003 and served until October 2004. From May 2005 until October 2005, Mr. Hugo-Martinez served as a member of the Board of Directors of Amkor Technology, Inc., a provider of semiconductor assembly and test services.

L.B. Day has served as a Director of Microchip since December 1994. Mr. Day serves as President of L.B. Day & Company, Inc., a consulting firm whose parent company he co-founded in 1977, which provides strategic planning, strategic marketing and organization design services to the elite of the high-technology world.

Matthew W. Chapman has served as a Director of Microchip since May 1997. From January 2002 to February 2006, he served as President and CEO of Centrisoft Corporation, a software provider for application performance management, and in 2006 he was named as Chairman of Centrisoft. From August 2000 to January 2002, Mr. Chapman served as an advisor to early-stage technology companies in connection with developing business plans and securing funding. From 1988 until August 2000, he served as CEO, and from 1991 until August 2000 as Chairman of Concentrex Incorporated, a supplier of integrated software solutions and services to financial institutions throughout the United States.

Wade F. Meyercord has served as a Director of Microchip since June 1999. Since October 2002, he has served as full-time President of Meyercord & Associates, Inc., a management consulting firm specializing in high technology company compensation matters (CEO, executive officer and board) and in stock plan consulting, a position he previously held part time beginning in 1987. From June 1999 to October 2002, Mr. Meyercord served as Senior Vice President and CFO of Rioport.com, an Internet applications service provider for the music industry. Mr. Meyercord served as a member of the Board of Directors of Magma Design Automation, Inc. from January 2004 to June 2005. Mr. Meyercord has been a member of the Board of Directors of California Micro Devices Corporation since January 1993 and of Endwave Corporation since March 2004.

PROPOSAL TWO

APPROVAL OF AMENDMENT TO 2004 EQUITY INCENTIVE PLAN

Our 2004 Equity Incentive Plan was approved by our stockholders in August 2004 and provides for the grant of stock options, stock appreciation rights, restricted stock (which may be granted in the form of restricted stock shares or restricted stock units (RSUs)), performance shares, performance units, and deferred stock units to our employees and consultants as well as for automatic grants of awards to the non-employee members of our Board of Directors. As of March 31, 2006, there were approximately 4,300 employees (including executive officers) who were eligible to participate in the 2004 Equity Incentive Plan.

Our Board of Directors is asking our stockholders to approve an amendment to our 2004 Equity Incentive Plan to remove the 30% limitation on the number of shares that can be granted as RSUs so that we can continue granting RSUs instead of stock options as our primary equity compensation incentive. As described below, due to recent changes in accounting regulations, our Board of Directors and Compensation Committee have decided that RSUs, as opposed to stock options, are the preferred method of providing equity incentives to our employees. We began granting RSUs to certain of our employees in fiscal 2006. Prior to this time, we had utilized stock options as our primary equity compensation incentive. Since we expect to primarily grant RSUs in the future and a relatively small number of stock options, our Board of Directors is asking our stockholders to amend the 2004 Equity Incentive Plan to remove the 30% limitation on the number of RSUs that can be granted.

During December 2004, the Financial Accounting Standards Board issued new accounting regulations that require companies to record a charge to earnings for employee stock option grants. These new rules became effective for Microchip on April 1, 2006. These regulations are changing the way that companies compensate their employees and consultants with equity awards. Specifically, under the prior rules we, along with many other technology companies, primarily granted stock options to employees. Under the new rules, companies are increasingly granting full-value awards, such as RSUs, in lieu of stock options. Because, in any given year, fewer shares are typically granted subject to full-value awards than would be granted subject to stock options, this can result in lower annual ownership dilution to stockholders. Depending on a number of factors, it can also result in a reduced financial accounting charge.

Under our 2004 Equity Incentive Plan, the number of shares that can be subject to full-value awards such as RSUs is limited to 4,718,047 shares (as of March 31, 2006). This number represents 30% of the shares initially approved by our stockholders under the plan in 2004, plus 30% of the shares subsequently added to the 2004 Equity Incentive Plan by virtue of options expiring or being cancelled under our 1993 Stock Option Plan and 1997 Nonstatutory Stock Option Plan (which plans are now terminated). Additionally, our 2004 Equity Incentive Plan permits full-value award grants of up to 30% of any future stock options under our terminated 1993 Stock Option Plan or 1997 Nonstatutory Stock Option Plan where such options are subsequently cancelled or expire unexercised, up to a maximum of an additional 4,281,210 shares.

Our Board of Directors believes that in order for us to remain competitive amidst the changing equity compensation landscape, it is necessary to amend the 2004 Equity Incentive Plan to remove the 30% limitation with respect to RSUs. This will provide our Board of Directors and our Compensation Committee with greater flexibility in structuring equity compensation arrangements and help us achieve our goal of attracting, retaining and motivating our personnel. We believe that, as revised, the 2004 Equity Incentive Plan will be an essential element of our competitive compensation package.

Please see the summary of our 2004 Equity Incentive Plan below.

Vote Required and Recommendation

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to approve the amendment to the 2004 Equity Incentive Plan.

Our executive officers have an interest in this proposal as they may receive awards of RSUs under the 2004 Equity Incentive Plan.

The Board of Directors recommends a vote FOR Proposal Two to amend our 2004 Equity Incentive Plan to remove the 30% share issuance limitation with respect to restricted stock units. Proxies solicited by the Board of Directors will be so voted unless stockholders specify otherwise in their proxies.

Summary of the Amended 2004 Equity Incentive Plan

The essential features of the 2004 Equity Incentive Plan, as amended, are summarized below. This summary does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the amended and restated 2004 Equity Incentive Plan, which is attached as Appendix A. Capitalized terms used herein and not defined shall have the meanings set forth in the 2004 Equity Incentive Plan.

General. The purposes of the 2004 Equity Incentive Plan are to attract and retain the best available personnel, provide additional incentive to our employees, consultants and non-employee directors and promote the success of our business.

Administration. The 2004 Equity Incentive Plan may be administered by our Board of Directors or a committee, which our Board of Directors may appoint from among its members (the Administrator). Subject to the provisions of the 2004 Equity Incentive Plan, the Administrator has the authority to: (i) interpret the plan and apply its provisions; (ii) prescribe, amend or rescind rules and regulations relating to the 2004 Equity Incentive Plan; (iii) select the persons to whom awards are to be granted (apart from the non-employee director automatic grant provisions); (iv) subject to individual fiscal year limits applicable to each type of award, determine the number of shares or equivalent units to be made subject to each award; (v) determine whether and to what extent awards are to be granted; (vi) determine the terms and conditions applicable to awards generally and of each individual award (including the provisions of the award agreement to be entered into between Microchip and the participant); (vii) amend any outstanding award subject to applicable legal restrictions (except repricing an option or SAR); (viii) authorize any person to execute, on our behalf, any instrument required to effect the grant of an award; (ix) approve forms of agreement for use under the Plan; (x) allow participants to satisfy withholding tax obligations by electing to have Microchip withhold from the shares or cash to be issued upon exercise, vesting of an award (or distribution of a deferred stock unit) that number of shares or cash having a fair market value equal to the minimum amount required to be withheld; and (xi) subject to certain limitations, take any other actions deemed necessary or advisable for the administration of the 2004 Equity Incentive Plan. All decisions, interpretations and other actions of the Administrator shall be final and binding on all holders of options or rights and on all persons deriving their rights therefrom.

Discount Award Limitations. No more than 30% of the shares initially available for issuance under the 2004 Equity Incentive Plan and 30% of the shares subsequently added to the 2004 Equity Incentive Plan by virtue of options expiring or being cancelled under the 1993 Stock Option Plan and 1997 Nonstatutory Stock Option Plan may be granted pursuant to awards with a purchase price that is less than 100% of fair market value on the date of grant; provided, however, that if Proposal Two is approved by our stockholders at the annual meeting, then such 30% limitations shall not apply to restricted stock units. No stock options or stock appreciation rights may be granted with an exercise price that is less than 100% of fair market value on the date of grant.

No Repricing. The 2004 Equity Incentive Plan prohibits option or stock appreciation right repricing, including by way of an exchange for another award.

Eligibility. The 2004 Equity Incentive Plan provides that awards may be granted to our employees, consultants and non-employee directors.

Code Section 162(m) Performance Goals. We have designed the 2004 Equity Incentive Plan so that it permits us to also issue other awards that qualify as performance-based under Section 162(m) of the Code. Thus, the Administrator may make performance goals applicable to a participant with respect to an award. At the Administrator's discretion, one or more of the following performance goals may apply: annual revenue, cash position, earnings per share, gross margin, net income, operating cash flow, operating income, return on assets, return on equity, return on sales, and total stockholder return, all as determined in accordance with accounting principles generally accepted in the United States. Except for cash position, return on equity and total stockholder return, a performance goal may apply either to us or to one of our business units. The Administrator may use other performance goals for awards that are not intended to qualify as performance-based under Section 162(m) of the Code.

Terms and Conditions of Options. Each option granted under the 2004 Equity Incentive Plan is evidenced by a written stock option agreement between the optionee and Microchip and is subject to the following terms and conditions:

(a) *Exercise Price.* The Administrator determines the exercise price of options at the time the options are granted. However, the exercise price of a stock option may not be less than 100% of the fair market value of the common stock on the date the option is granted. As our common stock is listed on the Nasdaq National Market, the fair market value is the closing sale price for the common stock (or the closing bid if no sales were reported) on the date the option is granted.

(b) *Form of Consideration.* The means of payment for shares issued upon exercise of an option is specified in each option agreement and generally may be made by cash, check, other shares of our common stock owned by the optionee, delivery of an exercise notice together with irrevocable instructions to a broker to deliver to us the exercise price from sale proceeds, or by a combination thereof.

(c) *Exercise of the Option.* Each stock option agreement will specify the term of the option and the date when the option is to become exercisable. However, in no event shall an option granted under the 2004 Equity Incentive Plan be exercised more than ten (10) years after the date of grant.

(d) *Termination of Employment.* If an optionee's employment terminates for any reason (other than death or permanent disability), all options held by such optionee under the 2004 Equity Incentive Plan expire upon the earlier of (i) such period of time as is set forth in his or her option agreement or (ii) the expiration date of the option. The optionee may exercise all or part of his or her option at any time before such expiration to the extent that such option was exercisable at the time of termination of employment.

(e) *Permanent Disability.* If an employee is unable to continue employment with us as a result of permanent and total disability (as defined in the Code), all options held by such optionee under the 2004

Equity Incentive Plan shall expire upon the earlier of (i) six (6) months after the date of termination of the optionee's employment or (ii) the expiration date of the option. The optionee may exercise all or part of his or her option at any time before such expiration to the extent that such option was exercisable at the time of termination of employment.

(f) *Death.* If an optionee dies while employed by us, 100% of his or her awards shall immediately vest, and his or her option shall expire upon the earlier of (i) 12 months after the optionee's death or (ii) the expiration date of the option. The executors or other legal representatives or the optionee may exercise all or part of the option at any time before such expiration with respect to all shares subject to such option.

(g) *Other Provisions.* The stock option agreement may contain terms, provisions and conditions that are consistent with the 2004 Equity Incentive Plan as determined by the Administrator.

162(m) Share Limit. No participant may be granted stock options and stock appreciation rights to purchase more than 1,500,000 shares of common stock in any fiscal year, except that up to 4,000,000 shares may be granted in the participant's first fiscal year of service.

Exercise Price and Other Terms of Stock Appreciation Rights. The Administrator, subject to the provisions of the 2004 Equity Incentive Plan (including the 162(m) share limit referred to above), shall have complete discretion to determine the terms and conditions of SARs granted under the 2004 Equity Incentive Plan.

Payment of Stock Appreciation Right Amount. Upon exercise of an SAR, the holder of the SAR shall be entitled to receive payment in an amount equal to the product of (i) the difference between the fair market value of a share on the date of exercise and the exercise price and (ii) the number of shares for which the SAR is exercised.

Payment upon Exercise of Stock Appreciation Right. At the discretion of the Administrator, payment to the holder of an SAR may be in cash, shares of our common stock or a combination thereof. To the extent that an SAR is settled in cash, the shares available for issuance under the 2004 Equity Incentive Plan shall not be diminished as a result of the settlement.

Stock Appreciation Right Agreement. Each SAR grant shall be evidenced by an agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the committee, in its sole discretion, shall determine.

Expiration of Stock Appreciation Rights. SARs granted under the 2004 Equity Incentive Plan expire as determined by the Administrator, but in no event later than ten (10) years from date of grant. No SAR may be exercised by any person after its expiration.

Grant of Restricted Stock. Subject to the terms and conditions of the 2004 Equity Incentive Plan, restricted stock may be granted to our employees and consultants at any time and from time to time at the discretion of the Administrator. The Administrator shall have complete discretion to determine (i) the number of shares subject to a restricted stock award granted to any participant and (ii) the conditions for grant or for vesting that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component. However, no participant shall be granted a restricted stock award covering more than 300,000 shares in any of our fiscal years, except that up to 750,000 shares may be granted on the participant's first fiscal year of service. Until the shares are issued, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the underlying shares. Restricted stock may also be granted in the form of restricted stock units, which are generally not issued until the vesting date.

Restricted Stock Award Agreement. Each restricted stock grant shall be evidenced by an agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator shall determine; *provided, however*, that if the restricted stock grant has a purchase price, the purchase price must be paid no more than ten (10) years following the date of grant.

Grant of Performance Shares. Subject to the terms and conditions of the 2004 Equity Incentive Plan, performance shares may be granted to our employees and consultants at any time and from time to time as shall be determined at the discretion of the Administrator. The Administrator shall have complete discretion to determine (i) the number of shares of our common stock subject to a performance share award granted to any service provider and (ii) the conditions that must be satisfied for grant or for vesting, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component. However, no participant shall be granted a restricted stock award covering more than 300,000 shares in any of our fiscal years, except that up to 750,000 shares may be granted on the participant's first fiscal year of service.

Performance Share Award Agreement. Each performance share grant shall be evidenced by an agreement that shall specify such other terms and conditions as the Administrator, in its sole discretion, shall determine.

Grant of Performance Units. Performance units are similar to performance shares, except that they shall be settled in cash equivalent to the fair market value of the underlying shares of our common stock, determined as of the vesting date. The shares available for issuance under the 2004 Equity Incentive Plan shall not be diminished as a result of the settlement of a performance unit.

Performance Unit Award Agreement. Each performance unit grant shall be evidenced by an agreement that shall specify such terms and conditions as shall be determined at the discretion of the Administrator. However, no participant shall be granted a performance unit award covering more than \$1,500,000 in any of Microchip's fiscal years, except that a newly hired participant may receive a performance unit award covering up to \$4,000,000.

Deferred Stock Units. Deferred stock units shall consist of a restricted stock, performance share or performance unit award that the Administrator, in its sole discretion, permits to be paid out in installments or on a deferred basis, in accordance with rules and procedures established by the Administrator. Deferred stock units are subject to the individual annual limits that apply to each type of award.

Awards to Non-Employee Directors. The 2004 Equity Incentive Plan provides for initial and annual awards to non-employee directors within prescribed parameters. Specifically, each non-employee director is entitled to receive the following automatic option grants of Common Stock: (i) an initial option grant of 12,000 shares on the date first appointed or elected to the Board of Directors (except for non-employee directors who previously served as directors); and (ii) an annual option grant of 6,000 shares on the first business day of the month in which our annual stockholders meeting is scheduled. Only non-employee directors who have served as such for at least 3 months as of the grant date are eligible to receive the annual grant.

Non-Transferability of Awards. Unless determined otherwise by the Administrator, an award granted under the 2004 Equity Incentive Plan may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the recipient, only by the recipient. If the Administrator makes an award granted under the 2004 Equity Incentive Plan transferable, such award shall contain such additional terms and conditions as the Administrator deems appropriate.

Acceleration upon Death. In the event that a participant dies while a service provider, 100% of his or her awards shall immediately vest.

Leave of Absence. In the event that a participant goes on a leave of absence, award vesting will cease until he or she returns to work, except as required by law or as determined by the Administrator.

Adjustment Upon Changes in Capitalization. In the event that our capital stock is changed by reason of any stock split, reverse stock split, stock dividend, combination or reclassification of our common stock or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by us, appropriate proportional adjustments shall be made in the number and class of shares of stock subject to the 2004 Equity Incentive Plan, the individual fiscal year limits applicable to restricted stock, performance share awards, SARs and options, the number and class of shares of stock subject to any award outstanding under the 2004 Equity Incentive Plan, and the exercise price of any such outstanding option or SAR or other award, provided that such automatic adjustments will not be made to the number of shares to be granted to our non-employee Directors under the 2004 Equity Incentive Plan. Any such adjustment shall be made by the Compensation Committee of our Board of Directors, whose determination shall be conclusive.

Change of Control. In the event of a change of control, the successor corporation (or its parent or subsidiary) will assume or substitute each outstanding award. If the successor corporation refuses to assume the awards or to substitute equivalent awards, such awards shall become 100% vested. In such event, the Administrator shall notify the participant that each award subject to exercise is fully exercisable for 30 days from the date of such notice and that the award terminates upon expiration of such period.

Amendment, Suspensions and Termination of the 2004 Equity Incentive Plan. Our Board of Directors may amend, suspend or terminate the 2004 Equity Incentive Plan at any time; *provided, however,* that stockholder approval is required for any amendment to the extent necessary to comply with Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (Rule 16b-3) or Section 422 of the Code, or any similar rule or statute. The 2004 Equity Incentive Plan will naturally expire in September 2014, unless earlier terminated.

Federal Tax Information

Options. Options granted under the 2004 Equity Incentive Plan are nonstatutory options that do not qualify as incentive stock options under Section 422 of the Code.

An optionee will not recognize any taxable income at the time the optionee is granted a nonstatutory option. However, upon its exercise, the optionee will recognize taxable income generally measured as the excess of the then fair market value of the shares purchased over the purchase price. Any taxable income recognized in connection with an option exercise by an optionee who is also our employee will be subject to tax withholding by us. Upon resale of such shares by the optionee, any difference between the sale price and the optionee's purchase price, to the extent not recognized as taxable income as described above, will be treated as short-term or long-term capital gain or loss, depending on the holding period.

Stock Appreciation Rights. No taxable income is reportable when an SAR is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the fair market value of any shares of our common stock received and/or the amount of cash received. Any additional gain or loss recognized upon any later disposition of the shares of our common stock would be a capital gain or loss.

Restricted Stock, Performance Units and Performance Shares. A participant will not have taxable income upon grant (unless, with respect to restricted stock that is not in the form of restricted stock units, he or she elects to be taxed at that time). Instead, he or she will recognize ordinary income at the time of vesting/delivery equal to the fair market value (on the vesting date) of the vested shares or cash received minus any amount paid for the shares of our vested common stock.

Tax Effect for Microchip. We generally will be entitled to a tax deduction in connection with an award under the 2004 Equity Incentive Plan in an amount equal to the ordinary income realized by a participant at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to our CEO and to each of our four most highly compensated executive officers. Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met with respect to awards. The 2004 Equity Incentive Plan has been designed to permit the committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to continue to receive a federal income tax deduction in connection with such awards.

The foregoing is only a summary of the effect of federal income taxation upon us and upon participants, does not purport to be complete, and does not discuss the tax consequences of any participant's death or the income tax laws of any municipality, state or foreign country in which a participant may reside.

New Plan Benefits

The amount, timing, and value of discretionary awards under the 2004 Equity Incentive Plan, including grants to our CEO and our four other most highly compensated executive officers, is not determinable. The future award of options to non-employee directors is subject to the election of such individuals as directors and the fair market value of the common stock on the date the options are granted. The following table sets forth information with respect to the grant of options during the fiscal year ended March 31, 2006 to: (a) non-employee directors; (b) our CEO and our four other most highly compensated executive officers named in this proxy statement; (c) all current executive officers as a group; and (d) all other employees as a group:

EQUITY GRANTS IN FISCAL 2006

Name of Individual or Identity of Group and Position	Number of Shares Subject to RSUs Granted	Weighted Average Fair Value (1)	Number of Shares Subject to Options Granted	Grant Price (2)
Steve Sanghi President and CEO			145,000	\$ 25.29
Mitchell R. Little VP, Worldwide Sales and Applications			28,000	25.29
Gordon W. Parnell VP, CFO			26,000	25.29
David S. Lambert VP, Fab Operations			28,000	25.29
Ganesh Moorthy VP, Advanced Microcontroller and Memory Division			40,000	25.29
All current executive officers as a group (7 people)			323,000	25.29
All current directors who are not executive officers as a group (4 people)			24,000	31.01
All other employees as a group	203,334	31.36	1,861,414	25.95

(1) Represents the weighted average fair value per share as of the grant date.

(2) Represents the weighted average per share grant price.

PROPOSAL THREE

APPROVAL OF OUR EXECUTIVE MANAGEMENT INCENTIVE COMPENSATION PLAN

In 1992, we established a Management Incentive Compensation Plan (the "Management Plan") with the main purpose of motivating our executives, managers, and senior technical employees using a formula based upon our financial performance. Each quarter, our Board of Directors determines the size of the pool available for awards to be made under the Management Plan, the Compensation Committee determines the awards to be made to our CEO and other executive officers, and our CEO and senior executives determine the individual awards to be made to other participants after qualitatively reviewing performance measures.

Because our stockholders have not been asked to approve the Management Plan, certain awards made thereunder to our executives may not qualify as deductible performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and thus may not be deductible by us.

To improve our ability to deduct compensation made to our executive officers above the 162(m) limit, on June 16, 2006 our Compensation Committee unanimously approved the Executive Management Incentive Compensation Plan (the "Executive Plan") which is attached as Appendix B, and directed that the Executive Plan be submitted to our stockholders at the 2006 annual meeting. The purpose of the Executive Plan is to enhance our ability to obtain tax deductions for performance-based compensation payments made to motivate executive officers to achieve performance objectives and to reward them when those objectives are satisfied. If approved by our stockholders, the Executive Plan would replace the Management Plan for our executive officers and would become effective October 1, 2006. Stockholders' approval will not increase the payments to executive officers, but will enhance our ability to obtain tax deductions for these payments.

The Board of Directors recommends a vote FOR Proposal Three, the approval of our Executive Plan.

Description of the Executive Management Incentive Compensation Plan

Eligibility. Our CEO, CFO, and our executive officers are eligible to be considered for participation in the Executive Plan. Because our CEO, CFO, and executive officers may be eligible to receive awards under the Executive Plan, they have an interest in this proposal. No person is automatically entitled to participate in the Executive Plan in any Executive Plan year. We may also pay discretionary bonuses, or other types of compensation, outside of the Executive Plan.

Purpose. The purpose of the Executive Plan is to motivate the participants to achieve our corporate and business unit performance objectives and to reward them quarterly (or over a longer period) when those objectives are satisfied. If certain requirements are satisfied, bonuses issued under the Executive Plan may qualify as deductible performance-based compensation within the meaning of Section 162(m) of the Code.

Administration. The Executive Plan will be administered by the Compensation Committee, consisting of no fewer than two members of the Board of Directors.

Determination of Awards. Under the Executive Plan, participants will be eligible to receive awards, quarterly or over a longer period, based upon the attainment and certification of certain performance criteria established by the Compensation Committee. The performance criteria the Compensation Committee may choose from may include one or more of the following:

- cash position,
- earnings per share,
- gross margin,
- net income,
- operating cash flow,
- operating expenses,
- operating profit,
- return on assets,
- return on equity,
- return on sales,
- revenue growth, or
- total stockholder return.

The performance criteria may differ for each participant. The performance criteria may apply to Microchip Technology Incorporated or to one of our business units, except with respect to cash position, return on equity, net income or total stockholder return, which shall only apply to Microchip Technology Incorporated.

Our Compensation Committee shall appropriately adjust any evaluation of performance under a performance criteria to exclude (i) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial conditions and results of operations appearing in our quarterly and annual reporting with the Securities and Exchange Commission for the applicable periods, or (ii) the effect of any changes in accounting principles affecting our or a business unit's reported results.

Our Compensation Committee retains the discretion to reduce or eliminate any award that would otherwise be payable pursuant to the Executive Plan.

Payment of Awards. All awards will be paid in cash as soon as is practicable following determination of the award, unless we establish a plan to permit deferral of bonus amounts, in which case awards will be paid pursuant to the timing requirements of that plan and applicable law. The Compensation Committee may also defer the payment of awards in its discretion, as necessary or desirable to preserve the deductibility of such awards under Code Section 162(m).

Maximum Award. The amounts that will be paid pursuant to the Executive Plan are not currently determinable. The maximum bonus payment that any participant may receive under the Executive Plan in any of our fiscal years is \$2,500,000.

Amendment and Termination. The Compensation Committee may amend, suspend or terminate the Executive Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Executive Plan or in any award granted thereunder. The Compensation Committee may amend or modify the Executive Plan in any respect, or terminate the Executive Plan, without the consent of any affected participant. However, in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to any award.

Indemnification. Our Board of Directors and Compensation Committee are generally indemnified by us for any liability arising from claims relating to the Executive Plan.

Federal Income Tax Consequences. Under present federal income tax law, participants will recognize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to our applicable income and employment tax withholding. If and to the extent that the Executive Plan payments satisfy the requirements of Section 162(m) of the Code and otherwise satisfy the requirements for deductibility under federal income tax law, we will receive a deduction for the amount constituting ordinary income to the participant.

Awards to be Granted to Certain Individuals and Groups

Awards under the Executive Plan are determined based on actual future performance, so future actual awards cannot now be determined.

PROPOSAL FOUR

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors has appointed Ernst & Young LLP, independent registered public accounting firm, to audit our consolidated financial statements for the fiscal year ending March 31, 2007. Ernst & Young LLP has audited our financial statements since the fiscal year ended March 31, 2002 and has served as our independent registered public accounting firm since June 6, 2001. The partner in charge of our audit will be rotated every five years. Other partners and non-partner personnel are rotated on a periodic basis.

We anticipate that a representative of Ernst & Young LLP will be present at the annual meeting, will have the opportunity to make a statement if he desires and will be available to respond to appropriate questions. Stockholder ratification of the appointment of Ernst & Young LLP is not required by our Bylaws or applicable law. However, our Board of Directors determined to submit such appointment to our stockholders for ratification. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection.

Upon the recommendation of our Audit Committee, the Board of Directors recommends that stockholders vote FOR ratification of such appointment.

Fees Paid to Independent Registered Public Accounting Firm

Audit Fees

This category includes fees associated with our annual audit, the reviews of our quarterly reports on Form 10-Q, and statutory audits required internationally. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of our interim financial statements, statutory audits and the assistance with review of our SEC registration statements. For fiscal 2006, this category also includes fees associated with the audit of our internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were \$915,000 for fiscal 2006 and \$1,094,000 for fiscal 2005.

Audit-Related Fees

This category includes fees associated with employee benefit plan audits, internal control reviews, accounting consultations, and attestation services that are not required by statute or regulation. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were \$102,000 for fiscal 2006 and \$86,000 for fiscal 2005.

Tax Fees

This category includes fees associated with tax return preparation, tax advice and tax planning. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were \$423,000 for fiscal 2006 and \$238,000 for fiscal 2005.

All Other Fees

This category includes fees for support and advisory services not related to audit services or tax services. There were \$2,000 of such fees in fiscal 2006 and \$2,000 of such fees in fiscal 2005.

Our Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by our independent registered public accounting firm. Under the policy, pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget or limit. The Audit Committee may also pre-approve particular services on a case-by-case basis. The Chairman of the Audit Committee has the delegated authority from the Audit Committee to pre-approve a specified level of services, and such pre-approvals are then communicated to the full Audit Committee at its next scheduled meeting. During fiscal 2006, all audit and non-audit services rendered by Ernst & Young LLP were approved in accordance with our pre-approval policy.

Our Audit Committee has determined that the non-audit services rendered by Ernst & Young LLP during fiscal 2006 and fiscal 2005 were compatible with maintaining the independence of Ernst & Young LLP.

PERFORMANCE GRAPH

The following graph indicates the cumulative total stockholder return for Microchip compared with the Center for Research in Security Prices Total Return Index for The NASDAQ Stock Market® (U.S.) (NASDAQ U.S. Composite) and the Philadelphia Semiconductor Index (SOXX) weighted by market value at the beginning of the measurement period. The graph covers the five-year period from March 31, 2001 through March 31, 2006.

Historic stock price performance is not necessarily indicative of future stock performance.

**SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS,
DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth information concerning the beneficial ownership of our common stock as of May 25, 2006 for: (a) each Director, (b) our CEO and the four other most highly compensated executive officers named in this proxy statement, (c) all Directors and executive officers as a group, and (d) each person who is known to us to own beneficially more than five percent of our common stock. Except as otherwise indicated in the footnotes to this table, and subject to applicable community property laws and joint tenancies, the persons named in this table have sole voting and investment power with respect to all shares of common stock held by such person:

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Common Stock	
Capital Research & Management Co. (2)	24,146,850	11.26	%
FMR Corp. (3)	11,881,782	5.54	%
Steve Sanghi (4)	5,956,917	2.75	%
Matthew W. Chapman (5)	54,147	*	
L.B. Day (1)	52,375	*	
Albert J. Hugo-Martinez (6)	112,500	*	
David S. Lambert (7)	506,522	*	
Mitchell R. Little (1)	93,096	*	
Wade F. Meyercord (8)	63,125	*	
Ganesh Moorthy (9)	221,140	*	
Gordon W. Parnell (10)	218,834	*	
All Directors and executive officers as a group (11 people) (1)	7,680,794	3.52	%

* Less than 1% of the outstanding shares of common stock.

(1) As indicated below, the number of shares beneficially owned includes shares of common stock issuable to the identified person pursuant to stock options and stock purchase rights that may be exercised within 60 days of May 25, 2006. In calculating the percentage of ownership, such shares are deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by any other stockholder:

- L.B. Day 47,375 shares
- Mitchell R. Little 87,948 shares
- Directors and executive officers as a group (11 people) 3,773,418 shares

(2) Address is 333 South Hope Street, Los Angeles, CA 90071. Information is based solely on the Schedule 13G filed by Capital Research & Management Co. (CRMC) dated February 6, 2006. Such Schedule 13G indicates that (i) Capital Research & Management Co. has sole power to dispose of and direct the disposition of the common stock, (ii) CRMC is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and is deemed to be the beneficial owner of 24,146,850 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, and (iii) the Growth Fund of America, Inc., an investment company registered under the Investment Company Act of 1940, which is advised by CRMC, is the beneficial owner of 12,755,000 of such shares.

(3) Address is 82 Devonshire Street, Boston, MA 02109. Information is based solely on the Schedule 13G filed by FMR Corp. dated February 14, 2006. Such Schedule 13G indicates that (i) FMR Corp. has sole power to vote or direct the vote and to dispose of and direct the disposition of the common stock, and (ii) FMR Corp. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the securities reported in the referenced Schedule 13G.

(4) Includes 2,417,208 shares issuable upon exercise of options and 3,514,006 shares held of record by Steve Sanghi and Maria T. Sanghi as trustees.

(5) Includes 40,250 shares issuable upon exercise of options, 262 shares held in Testamentary Trust of Regan Chapman and 135 shares held by Mr. Chapman's minor children.

21

- (6) Includes 45,250 shares issuable upon exercise of options and 62,750 shares held of record by Albert J. Hugo-Martinez and S. Gay Hugo-Martinez as trustees.
- (7) Includes 334,670 shares issuable upon exercise of options, 1,314 shares held by Mr. Lambert's children, and 829 shares held by David S. Lambert and Carol Lambert as trustees.
- (8) Includes 62,125 shares issuable upon exercise of options and 1,000 shares held of record by Wade Meyercord and Phyllis Meyercord as trustees.
- (9) Includes 206,902 shares issuable upon exercise of options and 14,238 shares held of record by Ganesh Moorthy and Hema Moorthy as trustees.
- (10) Includes 209,845 shares issuable upon exercise of options and 8,989 shares held of record by Gordon W. Parnell and Jeanette Parnell as trustees.

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee

The Compensation Committee of the Board of Directors, presently comprised of Mr. Hugo-Martinez and Mr. Day, reviews the performance of the executive officers and makes compensation decisions regarding the executive officers. The Compensation Committee generally seeks input from Mr. Sanghi when discussing the performance of, and compensation levels for, the executive officers other than Mr. Sanghi. Mr. Sanghi does not participate in deliberations relating to his own compensation.

Our Compensation Policy

Our compensation policy for officers and key employees is based on a pay-for-performance philosophy. This pay-for-performance philosophy emphasizes variable compensation, primarily by placing a large portion of pay at risk. We believe that this philosophy meets the following objectives:

- rewards performance that increases the value of our common stock
- attracts, retains, motivates and rewards individuals with competitive compensation opportunities
- aligns an executive's total compensation with our business objectives
- fosters a team environment among our management that focuses their energy on achieving our financial and performance objectives, consistent with Microchip's guiding values
- balances short-term and long-term strategic goals, and
- builds and encourages ownership of our common stock.

Decisions regarding cash and equity compensation also include subjective determinations and consideration of various factors with the weight given to a particular factor varying from time to time and in various individual cases, such as an executive's experience and tenure in the industry and the perceived value of the executive's position to Microchip as a whole.

We believe that the overall compensation levels for the executive officers in fiscal 2006 were consistent with our pay-for-performance philosophy and are commensurate with our fiscal 2006 performance.

Elements of Compensation

Our executive compensation program is currently comprised of four major elements:

- annual base salary
- incentive cash bonuses
- equity compensation, and
- compensation and employee benefits generally available to all of our employees.

Base Salaries. We review the base salaries of the executive officers each year. When setting base salaries, we review the performance objectives for Microchip as a whole, as well as the performance objectives for each of the individual officers relative to their respective areas of responsibility. We may also consider the salaries of executive officers in similar positions with comparably sized companies in the semiconductor industry. This review encompasses the objectives for both the immediately preceding fiscal year and the upcoming fiscal year. Performance objectives are initially developed by the individual officers, in conjunction with their respective operating units, and then discussed with and approved by the CEO to generate our quarterly operating objectives. The operating objectives are then reviewed and approved by the Board of Directors.

After consideration of the factors described above, the average base salaries for our executive officers were increased by approximately 4.4% in May 2005.

Incentive Cash Bonuses. Quarterly incentive cash bonuses may be payable to officers and key employees under our Management Incentive Compensation Plan, referred to as the MICP. The Compensation Committee may in its discretion approve quarterly payments under the MICP in conjunction with its review of our quarterly operating results. A bonus pool is established based on eligible individuals' participation level and is predicated on Microchip's quarterly operating results and various subjective determinations.

Consistent with our pay-for-performance philosophy, our CEO and executive officers received bonuses under the MICP during each quarter of fiscal 2006. For fiscal 2006, MICP bonus payments for executive officers other than the CEO ranged from \$98,641 to \$152,540.

Equity Compensation. Equity compensation, such as stock options and RSUs, constitutes a significant portion of our incentive compensation program because we believe that officers and key employees should hold substantial, long-term equity stakes in Microchip to align their collective interests with your interests. We typically make equity compensation grants to officers and key employees in connection with their initial employment and on an annual basis thereafter. Grants may also be made in connection with promotions, other changes in responsibilities or in recognition of other individual or Microchip developments or achievements. On March 31, 2006, approximately 64% of our employees worldwide held RSUs or options to purchase our common stock.

In granting equity compensation awards to executive officers, we consider numerous factors, including:

- the individual's position and responsibilities
- the individual's future potential to influence our mid- and long-term growth
- the vesting schedule of the awards, and
- the number of awards previously granted.

Edgar Filing: MICROCHIP TECHNOLOGY INC - Form DEF 14A

See the table under *Option Grants in Last Fiscal Year* at page 27 for information regarding options to purchase common stock granted during fiscal 2006 to the CEO and each of the four other most highly compensated executive officers named in this proxy statement.

23

Other Compensation and Employee Benefits Generally Available to All Employees. We maintain compensation and employee benefits that are generally available to all Microchip employees, including:

- the employee stock purchase plan
- medical, dental and life insurance benefits
- a 401(k) retirement savings plan, and
- a cash bonus plan.

The cash bonus plan can award each eligible employee with a target of two and one-half days of pay, based on base salary, every quarter, if certain operating profitability objectives are achieved. The target is adjusted based on actual quarterly operating results. During fiscal 2006, bonus awards were paid out under such plan for each quarterly period at a quarterly average of 129% of the target. Under such program, for fiscal 2006 our executive officers, other than our CEO, received payments ranging from \$8,652 to \$11,893.

We also maintain a supplementary retirement plan for certain employees, including the CEO and the executive officers, who receive compensation in excess of the 401(k) contribution limits imposed under the Internal Revenue Code. Microchip does not make contributions to this supplemental retirement plan.

CEO Compensation

We use the same factors and criteria described above in making compensation decisions regarding the CEO. Mr. Sanghi's base salary was not changed during fiscal 2005 due to industry conditions during the second half of fiscal 2005. In May 2005, Mr. Sanghi received a salary increase of approximately 5% bringing his salary to \$491,743.

In fiscal 2006, Mr. Sanghi earned an MICP bonus of \$1,428,515 and a cash bonus of \$25,060 based on the same factors described in *Incentive Cash Bonuses* on page 23.

During fiscal 2006, Mr. Sanghi was granted options to acquire 145,000 shares of common stock at a weighted average exercise price of \$25.29 per share. For additional information concerning these option grants, including vesting information, refer to the table under *Option Grants in Last Fiscal Year* at page 27. We determined that the amounts of the grants and the vesting terms provide an appropriate long-term incentive for Mr. Sanghi.

We believe that Mr. Sanghi's fiscal 2006 compensation was:

- consistent with our pay-for-performance philosophy
- commensurate with our fiscal 2006 operating objectives, and
- reasonable based on our overall performance in fiscal 2006 and our performance compared to the semiconductor industry as a whole.

Tax Code Concerns

Section 162(m) of the Internal Revenue Code disallows a corporate income tax deduction for executive compensation paid to senior executives in excess of \$1,000,000 per year, unless that income meets permitted exceptions. We anticipate that a substantial portion of each executive officer's compensation will be qualified performance-based compensation, that is not limited under Internal Revenue Code Section 162(m). If our stockholders approval Proposal Three at our annual meeting, this will enhance our ability to obtain tax deductions for compensation under our Executive Plan and have such compensation qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. We intend to review the deductibility of executive compensation from time to time to determine whether any additional actions are advisable to obtain deductibility.

Conclusion

We believe that the executive team provided outstanding service to Microchip in fiscal 2006. We will work to assure that the executive compensation programs continue to meet Microchip's strategic goals as well as the overall objectives discussed in this Report.

By the Compensation Committee of the Board of Directors(2):

Albert J. Hugo-Martinez (Chair)

L.B. Day

(2) The Compensation Committee Report on Executive Compensation is not soliciting material and is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filings of Microchip under the Securities Act of 1933 or the Securities Exchange Act of 1934 whether made before or after the date hereof and irrespective of any general incorporation language contained in such filings.

25

Summary Compensation Table

Name and Principal Position (1)	Annual Compensation			Long-Term Compensation Awards Securities Underlying Options/SARs	All Other Compensation (3)
	Fiscal Year	Salary	Bonus (2)		
Steve Sanghi, President and CEO	2006	\$ 488,407	\$ 1,453,575	145,000	\$ 4,848
	2005	468,327	1,062,652	300,000	3,668
	2004	459,321	71,330	289,792	3,043
Mitchell R. Little, VP, Worldwide Sales and Applications	2006	232,251	164,433	28,000	4,236
	2005	225,484	131,649	40,000	3,683
	2004	214,366	12,974	45,165	1,190
Gordon W. Parnell, VP, CFO	2006	213,255	150,984	26,000	3,268
	2005	207,041	116,740	36,000	3,050
	2004	195,837	10,973	41,675	2,564
David S. Lambert, VP, Fab Operations	2006	203,059	143,765	28,000	4,060
	2005	197,142	111,159	40,000	3,586
	2004	186,474	10,448	40,926	2,747
Ganesh Moorthy, VP, Advanced Microcontroller and Memory Division	2006	198,686	155,577	40,000	3,971
	2005	189,737	114,727	70,000	3,342
	2004	168,479	10,012	48,302	2,340

(1) Includes those individuals who in fiscal 2006 were the CEO or one of the four other most highly compensated executive officers as measured by salary and bonus for fiscal 2006.

(2) Includes the portion of MICP bonus and cash bonus payments under our cash bonus plan earned in year shown even if not paid until the following year.

(3) Consists of company-matching contributions to our 401(k) retirement savings plan.

Option Grants In Last Fiscal Year

Name	Individual Grants		Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation	
	Number of Securities Underlying Options Granted	(1)				Option Term	10% (2)
Steve Sanghi	145,000	(1)	6.6 %	\$ 25.29	4/1/15	\$ 2,306,188	\$ 5,844,333
Mitchell R. Little	28,000	(1)	1.3 %	25.29			