



LIXYS

2017

PROXY STATEMENT

AND ANNUAL REPORT TO STOCKHOLDERS

FOR THE YEAR ENDED MARCH 31, 2017

**IXYS CORPORATION
1590 BUCKEYE DRIVE
MILPITAS, CA 95035-7418**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON AUGUST 31, 2017**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of IXYS Corporation, a Delaware corporation. The meeting will be held on Thursday, August 31, 2017 at 11:00 a.m. local time at our headquarters, which is located at 1590 Buckeye Drive, Milpitas, California 95035, for the following purposes:

1. To elect eight directors to serve for the ensuing year and until their successors are elected;
2. To approve an increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan;
3. To approve, on an advisory basis, the compensation of our named executive officers;
4. To hold an advisory vote on the frequency of the advisory vote on the compensation of our named executive officers;
5. To ratify the selection of BDO USA, LLP as our independent registered public accounting firm for our fiscal year ending March 31, 2018; and
6. To transact such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

These items of business are more fully described in the proxy statement accompanying this notice.

Our Board of Directors has fixed the close of business on July 3, 2017 as the record date for the determination of stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors



Uzi Sasson
Secretary

Milpitas, California
July 28, 2017

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT PURPOSE. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

**IXYS CORPORATION
1590 BUCKEYE DRIVE
MILPITAS, CA 95035-7418**

**PROXY STATEMENT
FOR THE 2017 ANNUAL MEETING OF STOCKHOLDERS
AUGUST 31, 2017**

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors of IXYS Corporation, or the Board, is soliciting your proxy to vote at the 2017 Annual Meeting of Stockholders, or the Annual Meeting. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We are distributing this proxy statement and the accompanying proxy card on or about July 28, 2017 to all stockholders of record entitled to vote at the Annual Meeting. Our fiscal years end March 31. References to any numerically identified year preceded by the word “fiscal” are references to the year ended March 31 of such numerically identified year.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on July 3, 2017 will be entitled to vote at the Annual Meeting. On this record date, there were 32,595,143 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on July 3, 2017 your shares were registered directly in your name with the transfer agent of IXYS Corporation, or IXYS, then you are a stockholder of record. Our transfer agent is Computershare. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on July 3, 2017 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are five matters scheduled for a vote:

- Election of eight directors;
- Approval of an increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan;
- Approval, on an advisory basis, of the compensation of our named executive officers;
- An advisory vote on the frequency of the advisory vote on the compensation of our named executive officers; and
- Ratification of BDO USA, LLP, or BDO, as our independent registered public accounting firm for our fiscal year ending March 31, 2018, or fiscal 2018.

The Board of Directors recommends a vote in favor of each nominee named in this proxy statement, a vote in favor of the increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan, a vote for the approval, on an advisory basis, of the compensation of our named executive officers, a vote for the approval, on an advisory basis, of a frequency of every year for an advisory vote on the compensation of our named executive officers, and a vote in favor of the ratification of the selection of BDO as our independent registered public accounting firm for fiscal 2018.

How do I vote?

With respect to each nominee for director, you may either vote “For” the nominee or you may “Withhold” your vote for the nominee. You may vote “For,” “Against” or “Abstain” with respect to each of the other proposals. The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

- To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.
- To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of July 3, 2017.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted “For” the election of all eight nominees for director, “For” the approval of an increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan, “For” the approval, on an advisory basis, of the compensation of our named executive officers, “For” the approval, on an advisory basis, of a frequency of every one year for an advisory vote on the compensation of our named executive officers and “For” the ratification of BDO as our independent registered public accounting firm for our fiscal year ending March 31, 2018. If any other matter is properly presented at the meeting, your proxyholder, who is one of the individuals named on your proxy card, will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees and D.F. King & Co., Inc. will also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies, but D.F. King & Co., Inc. will be paid \$8,500 plus out-of-pocket expenses to solicit proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy card with a later date.
- You may send a timely written notice that you are revoking your proxy to IXYS Corporation's Secretary, Uzi Sasson, at 1590 Buckeye Drive, Milpitas, California 95035.
- You may attend the Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When are stockholder proposals due for next year's annual meeting?

To be considered for possible inclusion in next year's proxy materials delivered on behalf of the Board, your proposal must be submitted in writing by March 31, 2018 to IXYS Corporation's Secretary, Uzi Sasson, at 1590 Buckeye Drive, Milpitas, California 95035. If you wish to submit a proposal that is not intended to be included in next year's proxy materials delivered on behalf of the Board or you wish to nominate a director, you must do so no earlier than May 3, 2018 and no later than June 2, 2018. You are also advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count "For" and "Withhold" and, with respect to proposals other than the election of directors, "Against" votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as "Against" votes. Broker non-votes have no effect on voting on proposals and will not be counted towards the vote total for any proposal.

How many votes are needed to approve each proposal?

- For the election of directors, Proposal No. 1, the eight nominees receiving the most "For" votes (from the holders of shares, either present in person or represented by proxy, and entitled to vote on the election of directors) will be elected. Votes "Withheld" will not affect the outcome of voting for directors.
- To be approved, Proposal No. 2, the approval of an increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan, must receive "For" votes from the holders of a majority of shares voting on the proposal, either in person or by proxy, and entitled to vote. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.
- To be approved, Proposal No. 3, the approval, on an advisory basis, of the compensation of our named executive officers, must receive "For" votes from a majority of the shares voting on the proposal, either in person or by proxy, and entitled to vote. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.
- For Proposal No. 4, an advisory vote on the frequency of the advisory vote on the compensation of our named executive officers, the frequency that receives the highest number of votes cast will be deemed to be the frequency selected by our stockholders. If you "Abstain" from voting, the abstention will not have any effect on the advisory vote. Broker non-votes will have no effect.

- To be approved, Proposal No. 5, ratification of BDO as our independent registered public accounting firm for the year ending March 31, 2018, must receive “For” votes from the holders of a majority of the shares voting on the proposal, either in person or by proxy, and entitled to vote. If you “Abstain” from voting, it will have the same effect as an “Against” vote. Brokers have the discretion to vote on Proposal No. 5.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares as of the record date are present at the meeting in person or represented by proxy. On the record date, there were 32,595,143 shares outstanding and entitled to vote.

Your shares will be counted towards the quorum if you submit a valid proxy or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

How can I obtain directions to be able to attend the Annual Meeting and vote in person?

You will find directions to 1590 Buckeye Drive, Milpitas, California 95035 at the following website: http://www.ixys.com/locations/IXYS_us_corporate.html or you may send an email requesting directions to investorrelations@ixys.net or you may call 408-457-9000, extension 9001 or extension 9092, and ask for directions.

PROPOSAL 1

ELECTION OF DIRECTORS

Our Board consists of eight directors. There are eight nominees for director to be voted on at the Annual Meeting. Each director to be elected will hold office until the next annual meeting of stockholders and until his successor is elected, or until such director’s earlier death, resignation or removal. Each of the nominees listed below is currently a director of our company. Each such nominee was previously elected by the stockholders. It is our policy to encourage nominees for director to attend the Annual Meeting. All eight nominees for election as a director at the 2016 annual meeting of stockholders attended the meeting.

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote. The eight nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the eight nominees named below. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected and our management has no reason to believe that any nominee will be unable to serve.

**THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF EACH NAMED NOMINEE.**

Nominees

The names of the nominees and certain information about them as of July 3, 2017 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation/ Position Held With the Company</u>
Nathan Zommer	69	Chairman of the Board and Chief Executive Officer of IXYS Corporation
Donald L. Feucht	83	Investor
Samuel Kory	74	Consultant
S. Joon Lee	77	Retired Executive
Timothy A. Richardson	60	Venture Partner of Vertical Venture Partners
Uzi Sasson	55	President, Chief Executive Officer, Chief Financial Officer and Secretary of IXYS Corporation
James M. Thorburn	61	Consultant
Kenneth D. Wong	47	Senior Managing Director of Capital Markets and Treasury of DivcoWest

Nathan Zommer. Dr. Zommer, founder of our company, has served as a Director since our inception in 1983, and has served as Chairman of the Board and Chief Executive Officer since March 1993. From 1993 to 2009, Dr. Zommer served as President and, from 1984 to 1993, Dr. Zommer served as Executive Vice President. Prior to founding our company, Dr. Zommer served in a variety of positions with Intersil, Hewlett Packard and General Electric, including as a scientist in the Hewlett Packard Laboratories and Director of the Power MOS Division for Intersil/General Electric. As our founder, Dr. Zommer has the knowledge of our company's complete history. This, taken together with his technical skills, background as an executive and over three decades of experience in the semiconductor industry, makes him uniquely qualified to be on our Board. Dr. Zommer received his B.S. and M.S. degrees in Physical Chemistry from Tel Aviv University and a Ph.D. in Electrical Engineering from Carnegie Mellon University.

Donald L. Feucht. Dr. Feucht has served as a Director since July 2000. From 1992 until his retirement in 1998, Dr. Feucht served as Vice President for Operations for Associated Western Universities. He was employed as a Program Management Specialist for EG&G Rocky Flats, Inc. from 1990 until 1992. Prior to 1990, Dr. Feucht served in several positions with the National Renewable Energy Laboratory, including Deputy Director. Prior to joining the National Renewable Energy Laboratory, he served as Professor of Electrical Engineering and Associate Dean at Carnegie Mellon University. Dr. Feucht adds an extensive technical background in semiconductor design and solar energy, analytical skills and experience in managing research and scientific organizations to the Board's set of skills and experience. Dr. Feucht received his B.S. degree in Electrical Engineering from Valparaiso University and his M.S. and Ph.D. degrees in Electrical Engineering from Carnegie Mellon University.

Samuel Kory. Mr. Kory has served as a Director since November 1999. In 1988, he founded Samuel Kory Associates, a management consulting firm. Since founding the firm, Mr. Kory has served as the firm's sole proprietor and principal, as well as a consultant for the firm. He has substantially retired from this business, limiting his work to occasional assignments. Mr. Kory previously served as President and Chief Executive Officer of Sensor Technologies USA, Vice President for Business Development and Sales of our company, Division General Manager and Corporate Director of Marketing for Seiko Instruments USA, and an International Manager for Spectra Physics Inc. During his career, Mr. Kory worked in and consulted with a variety of companies in high technology businesses. His experience in business development and sales in the semiconductor industry, combined with his international background in managing operations, sales and marketing in customers of the semiconductor industry, permits him to bring a perspective on marketing and business development issues to the Board. Mr. Kory received his B.S.M.E. from Pennsylvania State University.

S. Joon Lee. Dr. Lee has served as a Director since July 2000. From 1990 to March 2008, Dr. Lee served as President of Omni Microelectronics, a consulting and engineering company. Dr. Lee also served as President of Adaptive Logic, a semiconductor company, from 1991 until 1996. Previously, Dr. Lee served as President of

Samsung Semiconductor. Dr. Lee's technical expertise, combined with his operational experience running an international semiconductor manufacturer, adds depth to the Board's understanding of the semiconductor business. Dr. Lee received his B.S., M.S. and Ph.D. degrees in Electrical Engineering from the University of Minnesota.

Timothy A. Richardson. Mr. Richardson has served as a Director since June 2007. He is an electronics industry veteran and, since January 2015, a Venture Partner of Vertical Venture Partners. Mr. Richardson has served as a consultant to a number of organizations since January 2011. In April 2015, Traction LLC was established to manage his consulting relationships. Mr. Richardson also serves as a Strategic Advisor to the Georgia Tech Research Institute. He was a director of the Jupiter Research Foundation from May 2003 to May 2015 and currently serves as the foundation's Treasurer. At Sirenza Microdevices, Inc., a supplier of radio frequency components for electronics, he was the Chief Strategy Advisor from October 2006 to April 2007. From May 2002 to October 2006, he was the President and Chief Executive Officer of Micro Linear Corporation, an integrated circuit company specializing in wireless applications. Mr. Richardson's service as the chief executive officer and member of the board of directors of a public semiconductor company, as well as his service as a strategic officer of another semiconductor company and his extensive experience in the semiconductor industry, enables him to provide operational, financial and business development expertise to apply on behalf of our company.

Uzi Sasson. Mr. Sasson has served as our Chief Executive Officer since August 2016, our President since December 2009, and our Chief Financial Officer and Secretary since November 2004. He has been a Director since June 2015 and he was also a Director from August to November 2004. From November 2004 to December 2009, Mr. Sasson was our Vice President and, from June 2007 to August 2010, Mr. Sasson held the title of Chief Operating Officer. Prior to joining our company, Mr. Sasson worked in tax, accounting and finance for technology and accounting firms. Mr. Sasson brings to the Board his decade long experience in the operational and financial matters of our company and expertise from his career in tax, public accounting and finance prior to joining our company. Mr. Sasson has a M.S. in Taxation and a B.S. in Accounting from Golden Gate University and is a Certified Public Accountant in California.

James M. Thorburn. Mr. Thorburn has served as a Director since March 2007. Since April 2010, Mr. Thorburn has been consulting, principally to private equity and startup firms. In connection with his consulting work, Mr. Thorburn served as the interim Chief Financial Officer of Ener-Core, Inc., a manufacturer of gradual oxidizer power generators, from May 2013 to November 2013. Mr. Thorburn was an operator affiliate with Francisco Partners, a private equity firm, from August 2006 to February 2009 and served as the Chief Financial Officer of Fisker Automotive, Inc., a premium plug-in hybrid electric vehicle manufacturer, from February 2009 to April 2010. He served as Chief Executive Officer and Chairman of Zilog, Inc. from January 2002 until August 2006. Prior to being Chief Executive Officer at Zilog, Mr. Thorburn held various executive positions including Senior Vice President and Chief Operating Officer of ON Semiconductor, operating consultant with Texas Pacific Group, Chief Financial Officer at Zilog and management positions at National Semiconductor. Mr. Thorburn, through his background in private equity and executive experience in public and private companies, brings leadership skills, mergers and acquisition skills, and capital financing and financial reporting experience to the mix of skills on the Board. Mr. Thorburn holds a BSc. (Hons.) degree from University of Glasgow and is a qualified accountant with the Chartered Institute of Management Accountants in the United Kingdom.

Kenneth D. Wong. Mr. Wong has served as a Director since June 2011. Previously, he served as a director from 2004 to 2007. Since June 2016, Mr. Wong has served as Senior Managing Director of Capital Markets and Treasury of DivcoWest, a real estate investment firm. From 2012 to May 2016, Mr. Wong was the Chief Financial Officer and Managing Director of MWest REIT, Inc., an owner-operator of commercial real estate in Silicon Valley, California. From 1997 to 2011, Mr. Wong was with Menlo Equities, a developer and owner-operator of commercial real estate in California. Mr. Wong served as its Chief Financial Officer from 1997 to 2011 and as its Chief Operating Officer from 2001 to 2011. From 1993 to 1997, Mr. Wong served in several positions at Coopers & Lybrand, his last role being a Manager. Mr. Wong's work in finance and accounting adds to the Board's expertise in these fields. He received a B.S. degree in Business Administration from the University of California at Berkeley.

There are no family relationships among any of our directors or executive officers.

INFORMATION REGARDING THE BOARD AND CORPORATE GOVERNANCE

Independence of the Board

Under The Nasdaq Stock Market, or Nasdaq, listing standards, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by the board of directors. Under its charter, the Nominating and Corporate Governance Committee of the Board, or the Nominating and Corporate Governance Committee, determines the independence of our directors. The Nominating and Corporate Governance Committee consults with our counsel to ensure that its determinations are consistent with all relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of the Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and our company, our senior management and our independent registered public accounting firm, the Nominating and Corporate Governance Committee has affirmatively determined that Messrs. Feucht, Kory, Lee, Richardson, Thorburn and Wong are independent directors within the meaning of the applicable Nasdaq listing standards. Dr. Zommer and Mr. Sasson, our Chief Executive Officers, are not independent directors.

Meetings of the Board of Directors

The Board met four times during the last fiscal year. Each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he served, held during the period for which he was a director or committee member. The Board reviews its own performance at meetings every third year. Independent directors meet regularly without other directors being present.

Information Regarding Committees of the Board of Directors

The Board has three committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Below is a description of each committee of the Board. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Nominating and Corporate Governance Committee has determined that each member of each committee meets the applicable Nasdaq rules and regulations regarding "independence."

Audit Committee

The Audit Committee of the Board, or Audit Committee, was established by the Board in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 to oversee our corporate accounting and financial reporting processes and audits of our financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the qualifications of the independent registered public accounting firm; determines and approves the engagement of the independent registered public accounting firm; determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm; reviews and approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent registered public accounting firm on our audit engagement team as required by law; reviews and approves or rejects transactions between our company and any related persons; confers with management and the independent registered public accounting firm regarding the effectiveness of internal controls over financial reporting; establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and meets to review our annual audited financial statements and quarterly financial statements. The Audit Committee is composed of four directors: Messrs. Feucht, Richardson, Thorburn and Wong. Mr. Wong is the current chairman. The Audit Committee met ten times

during the fiscal year. The Audit Committee has adopted a written charter that is available to stockholders on our website, www.ixys.com, at the following address: <http://www.ixys.com/Documents/InvestorRelations/auditcommitteecharter.pdf>.

The Nominating and Corporate Governance Committee reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all members of our Audit Committee are independent. The Nominating and Corporate Governance Committee has also determined that each of Messrs. Richardson, Thorburn and Wong qualifies as an “audit committee financial expert,” as defined in the applicable rules of the Securities and Exchange Commission, or SEC.

Report of the Audit Committee of the Board¹

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended March 31, 2017 with our management. The Audit Committee has discussed with the independent registered public accounting firm that serves as our auditors, BDO USA, LLP, the matters required to be discussed by Auditing Standard No. 1301 – *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board, or PCAOB. The Audit Committee has also received the written disclosures and the letter from BDO required by the applicable requirements of the PCAOB regarding BDO’s communications with the Audit Committee concerning independence and has discussed with BDO its independence. Based on the foregoing, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in our Annual Report in Form 10-K for the fiscal year ended March 31, 2017.

Donald L. Feucht
Timothy A. Richardson
James M. Thorburn
Kenneth D. Wong

Compensation Committee

The Compensation Committee of the Board, or the Compensation Committee, is composed of four directors: Messrs. Kory, Lee, Richardson and Thorburn. Mr. Thorburn is the current Chairman. All members of our Compensation Committee are independent under the Nasdaq listing standards. The Compensation Committee met six times during the fiscal year. The Compensation Committee has adopted a written charter that is available to stockholders on our website, www.ixys.com, at the following address: <http://www.ixys.com/Documents/InvestorRelations/compensationcommitteecharter.pdf>.

The Compensation Committee acts on behalf of the Board to review, adopt, recommend for adoption and oversee various elements of compensation for our company, including:

- establishment of corporate and individual performance objectives relevant to the compensation of our executive officers and evaluation of performance in light of these stated objectives;
- review and approval of the compensation and other terms of employment or service of the executive officers, including severance and change-in-control arrangements;
- review of and recommendation to the Board of the elements of compensation for the directors; and
- administration of our equity compensation plans and other compensation plans and programs that may be adopted from time to time.

¹ The material in this Audit Committee Report is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any filing of the Company under the 1933 or 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation by reference language in any such filing.

The Compensation Committee also reviews with management our Compensation Discussion and Analysis and considers whether to recommend that it be included in proxy statements and other filings. The Compensation Committee may delegate its authority to one or more of its members, subject to such reporting to or ratification by the committee as it directs. The Compensation Committee's philosophy and approach to executive compensation, as well as its specific determinations with respect to executive compensation for the fiscal year ended March 31, 2017 are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee who served as such during fiscal 2017 is, or was at the time of such service, an employee or officer of our company. During the 1980s, Mr. Kory was a vice president of a predecessor of our company. None of our executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving on the Board or Compensation Committee of our company.

Compensation Committee Report²

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained herein. Based on this review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in our proxy statement following the fiscal year ended March 31, 2017 and incorporated into our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Samuel Kory
S. Joon Lee
Timothy A. Richardson
James M. Thorburn

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for identifying, reviewing and evaluating candidates to serve as our directors, reviewing and evaluating incumbent directors, recommending to the Board for selection candidates for election to the Board, making recommendations to the Board regarding the membership of the committees of the Board and addressing corporate governance matters for us. The Nominating and Corporate Governance Committee is composed of five directors: Messrs. Feucht, Kory, Lee, Richardson and Thorburn. Mr. Richardson is the current Chairman. All members of the Nominating and Corporate Governance Committee are independent under the Nasdaq listing standards. The Nominating and Corporate Governance Committee met four times during the fiscal year. The Nominating and Corporate Governance Committee has adopted a written charter that is available to stockholders on our website, www.ixys.com, at the following address: <http://www.ixys.com/Documents/InvestorRelations/nominatingcommitteecharter.pdf>.

Under its charter, the Nominating and Corporate Governance Committee will consider individuals who are suggested by our stockholders as potential company nominees to serve on the Board in the same manner that the committee considers potential nominees identified through other channels. Stockholder recommendations for directors must be in writing and sent by U.S. mail to: General Counsel, IXYS Corporation, 1590 Buckeye Drive, Milpitas, California 95035. The General Counsel will forward any recommendation to the members of the Nominating and Corporate Governance Committee.

² The material in this Compensation Committee Report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Company under the 1933 or 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation by reference language in any such filing.

Board Composition

As an international semiconductor manufacturer, our business involves an operational structure that operates on a global scale and includes research, manufacturing and marketing functions in a context characterized by evolving technologies, exposure to business cycles and significant competition. The Nominating and Corporate Governance Committee is responsible for reviewing and assessing with the Board the appropriate skills, experience, and background sought of Board members in light of our business and the existing membership on the Board. This assessment of Board skills, experience, and background includes numerous factors, such as age; understanding of and experience in manufacturing, technology, finance and marketing; international experience; and culture. The priorities and emphasis of the committee and of the Board with regard to these factors may change from time to time to take into account changes in the company's business and other trends, as well as the portfolio of skills and experience of current and prospective Board members.

We do not expect or intend that each director will have the same background, skills, and experience; we expect that Board members will have a diverse portfolio of backgrounds, skills, and experiences. One goal of this diversity is to assist the Board in its oversight and advice concerning our business and operations. Listed below are key skills and experience that we consider important for our directors to have in light of our current business and structure. The directors' biographies note each director's relevant experience, qualifications, and skills relative to this list.

- Semiconductor industry experience
- Senior leadership experience
- Technical expertise
- Public company board experience
- Financial expertise
- Business development and mergers and acquisitions experience
- International business experience

Board members should possess personal and professional ethics, integrity and values, informed judgment, and sound business experience, and be committed to representing the long-term interests of our stockholders. They must also have an inquisitive and objective perspective, the ability to make independent analytical inquiries, practical wisdom and mature judgment. These factors, and others considered useful by the Board, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. Board members must be willing and able to devote sufficient time to the affairs of our company and are expected to prepare for, attend, and participate in all Board and applicable committee meetings. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as a director. These other commitments will be considered by the Nominating and Corporate Governance Committee and the Board when reviewing Board candidates.

The Board's Leadership Structure

The Board currently combines the role of Chairman of the Board and Chief Executive Officer. The Board believes that Dr. Zommer is best situated to serve as Chairman of the Board because he is the director most familiar with the Company's business and industry and is therefore best able to identify the strategic priorities to be discussed by the Board. The Board believes that combining the role of Chairman of the Board and Chief Executive Officer facilitates information flow between management and the Board and fosters strategic development and execution. The Board has not appointed a lead independent director; however, the Board maintains effective independent oversight through a number of governance practices, including open and direct communication with management, input on meeting agendas and regular executive sessions. Further, the smaller size of the Board, set at eight members, and the extensive overlap of the independent directors on the three standing committees obviates the need for a single individual to assume, and be compensated for, the communication and coordination function of a lead director.

Risk Oversight and the Board

One of the Board’s functions is oversight of risk management. “Risk” is inherent in business, and the Board seeks to understand and advise on risk in conjunction with the activities of the Board and the Board’s committees.

The Board and management consider “risk” for these purposes to be the possibility that an undesired event could occur that adversely affects the achievement of our objectives. Risks vary in many ways, including the ability of the company to anticipate and understand the risk, the types of adverse impacts that could occur if the undesired event occurs, the likelihood that an undesired event and a particular adverse impact would occur, and the ability of the company to control the risk and the potential adverse impacts. Examples of the types of risks faced by a company include:

- macroeconomic risks, such as inflation, reduction in economic growth or recession;
- political risks, such as restrictions on access to markets, confiscatory taxation or expropriation of assets;
- “event” risks, such as natural disasters; and
- business-specific risks related to strategic positions, cybersecurity, operational execution, financial structure, legal and regulatory compliance and corporate governance.

Not all risks can be dealt with in the same way. Some risks may be easily perceived and controllable, and other risks are unknown; some risks can be avoided or mitigated by particular behavior and some risks are unavoidable as a practical matter. For some risks, the potential adverse impact would be minor, and, as a matter of business judgment, it may not be appropriate to allocate significant resources to avoid the adverse impact; in other cases, the adverse impact could be significant, and it is prudent to expend resources to seek to avoid or mitigate the potential adverse impact. In some cases, a higher degree of risk may be acceptable because of a greater perceived potential for reward. Our company engages in numerous activities seeking to align its voluntary risk-taking with company strategy, and understands that its projects and processes may enhance our business interests by encouraging innovation and appropriate levels of risk-taking.

Management is responsible for identifying risk and risk controls related to significant business activities; mapping the risks to company strategy; and developing programs and recommendations to determine the sufficiency of risk identification, the balance of potential risk to potential reward and the appropriate manner in which to control risk. The Board implements its risk oversight responsibilities by having management provide at least annual briefings on the significant voluntary and involuntary risks that the company faces and how the company is seeking to control risk if and when appropriate. Generally, risk oversight is addressed as part of the full Board’s engagement with the CEO and management. In some cases, a Board committee is responsible for oversight of specific risk topics. For example, the Audit Committee oversees issues related to internal control over financial reporting and the Compensation Committee oversees risks related to compensation programs, as discussed in greater detail in “Executive Compensation.” To address one risk, the Board has adopted a policy prohibiting hedging of our common stock by employees and directors.

Stockholder Communications with the Board

The Board believes that management speaks for our company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with our company, but it is expected that Board members would do this with knowledge of management and, in most instances, only at the request of management.

In cases where stockholders wish to communicate directly with one or more of the independent directors, email messages can be sent to directorcom@ixys.net. The messages will be received by our General Counsel and forwarded to the Chairman of our Nominating and Corporate Governance Committee, who will determine their distribution to the appropriate committee of the Board or independent director and facilitate an appropriate response.

PROPOSAL 2

APPROVAL OF 400,000 SHARES FOR ISSUANCE UNDER THE AMENDED AND RESTATED 1999 EMPLOYEE STOCK PURCHASE PLAN

In January 1999, the Board adopted our 1999 Employee Stock Purchase Plan, which (including the subsequent amendments and restatements) is referred to in this proxy statement as the Purchase Plan. On November 19, 1999, our stockholders approved the Purchase Plan, reserving 250,000 shares of our common stock for issuance pursuant to the stock purchase rights awarded under the Purchase Plan. The initial 250,000 shares were later increased to 500,000 through a two-for-one stock split. On September 7, 2007, our stockholders approved an increase of 350,000 shares under the Purchase Plan, and an additional 350,000 shares under the Purchase Plan were approved by our stockholders on August 27, 2010. Further, our stockholders approved an additional 350,000 shares under the Purchase Plan on August 28, 2014, bringing the total shares authorized under the Purchase Plan to 1,550,000. As of July 3, 2017, about 71,000 shares of our common stock remain available for issuance under the Purchase Plan. At recent issuance rates, those shares are likely to be exhausted before next year's stockholder meeting. We desire to increase the total number of shares authorized for issuance by 400,000, which results in an aggregate of 1,950,000 shares of our common stock being authorized under the Purchase Plan. The Purchase Plan currently meets the requirements set forth in Section 423 of the Internal Revenue Code of 1986, as amended, or the Code.

In determining the size of the additional share reserve under the Purchase Plan, the Board considered that the issuance of the full additional 400,000 shares to be reserved under the Purchase Plan would dilute the holdings of stockholders. The amount of such dilution would be an additional 1.1% on a fully diluted basis, based on the number of shares of our common stock, and options for our common stock, outstanding as of July 3, 2017. The Board also considered the expected duration of the additional share reserve in light of the historical number of shares purchased under the Purchase Plan in recent years. In fiscal years 2015, 2016 and 2017, the number of shares purchased under the Purchase Plan was 99,975 shares, 97,274 shares and 112,171 shares, respectively. The actual number of shares that will be purchased under the Purchase Plan in any given year will depend on a number of factors, including the number of participants, the participant's participation rates and our stock price. Based on usage in recent years, an additional 400,000 shares would meet our needs for three years, but the actual number of shares that will be purchased under the Purchase Plan will depend on the factors listed above. In light of these factors, the Board has determined that the size of the share reserve increase under the Purchase Plan is reasonable and appropriate at this time.

Stockholders are requested in this Proposal 2 to approve an increase of 400,000 shares for issuance under the Purchase Plan. The affirmative vote of the holders of a majority of the shares voting on the proposal at the meeting, either in person or by proxy, will be required to approve the 400,000 shares increase. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are not counted for any purpose in determining whether this matter has been approved.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 2.

The essential features of the Purchase Plan, as amended, are outlined below:

Purpose

The purpose of the Purchase Plan is to provide a means by which our employees (and any parent or subsidiary designated by the Board to participate in the Purchase Plan) may be given an opportunity to purchase our common stock through payroll deductions, to assist us in retaining the services of our employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for our success. Approximately 311 of our approximately 1,003 employees (which latter number includes employees of our subsidiaries outside the United States) are eligible to participate in the Purchase Plan.

The rights to purchase our common stock granted under the Purchase Plan are intended to qualify as options issued under an "employee stock purchase plan" as that term is defined in Section 423(b) of the Code.

Administration

Our Board administers the Purchase Plan and has the final power to construe and interpret both the Purchase Plan and the rights granted under it. Our Board has the power, subject to the provisions of the Purchase Plan, to determine when and how rights to purchase our common stock will be granted, the provisions of each offering of such rights (which need not be identical), and whether employees of any parent or subsidiary will be eligible to participate in the Purchase Plan.

Our Board has the power to delegate administration of the Purchase Plan to a committee composed of not fewer than two members of the Board. As used herein with respect to the Purchase Plan, the “Board” refers to any committee the Board appoints as well as to the Board itself. In fact, the Board has granted the Compensation Committee coextensive authority in its charter.

Offerings

The Purchase Plan is implemented by offerings of rights to all eligible employees from time to time by the Board. The offering under the Plan shall begin on June 1 of each year and will last for one year. This one year offering period will be divided into two shorter “purchase periods” approximately six months long. Purchase dates under the Purchase Plan will generally be November 30 and May 31 of each year.

Eligibility

Any person who is customarily employed at least 20 hours per week and five months per calendar year by us (or by any parent or subsidiary designated by the Board) on the first day of an offering is eligible to participate in that offering. Our officers who are “highly compensated” as defined in the Code are eligible to participate in the Purchase Plan.

However, no employee is eligible to participate in the Purchase Plan if, immediately after the grant of purchase rights, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of our stock or of any parent or subsidiary (including any stock which such employee may purchase under all outstanding rights and options). In addition, no employee may purchase more than \$25,000 worth of our common stock (determined at the fair market value of the shares at the time such rights are granted) under all our employee stock purchase plans and our affiliates in any calendar year.

Additionally, any person who is employed by any non-U.S. subsidiary is not eligible to participate in the Purchase Plan.

Participation in the Plan

Eligible employees enroll in the Purchase Plan by delivering to us, prior to the date selected by the Board as the offering date for the offering, an agreement authorizing payroll deductions of up to 15% of such employee’s compensation during the offering (or such lower percentage as specified in the offering document prior to the beginning of the offering).

Purchase Price

The purchase price per share at which shares of our common stock are sold in an offering under the Purchase Plan is the lower of (i) 85% of the fair market value of a share of common stock on the first day of the offering or (ii) 85% of the fair market value of a share of common stock on the last day of the purchase period.

Payment of Purchase Price; Payroll Deductions

The purchase price of the shares is accumulated by payroll deductions over the offering. At any time during the offering, a participant may reduce or terminate his or her payroll deductions as the Board provides in the offering. A participant may not increase or begin such payroll deductions after the beginning of any purchase period, except, if the Board provides, in the case of an employee who first becomes eligible to participate as of a date specified during the purchase period. All payroll deductions made for a participant are credited to his or her account under the Purchase Plan and deposited with our general funds. A participant may not make additional

payments into such account, unless specifically provided in the offering and unless the participant has not had the maximum amount withheld during the offering.

Purchase of Stock

By executing an agreement to participate in the Purchase Plan, the employee is entitled to purchase shares under the Purchase Plan. In connection with offerings made under the Purchase Plan, our Board can specify a maximum number of shares of our common stock an employee may be granted the right to purchase and the maximum aggregate number of shares of our common stock that may be purchased pursuant to such offering by all participants. Generally, the Board has permitted any participating individual to purchase up to the \$25,000 and 15% limitations. The maximum aggregate number of shares available to be purchased by all eligible employees will be the number of shares remaining available under the Purchase Plan on the offering date. If the aggregate number of shares to be purchased upon exercise of rights granted in the offering would exceed the maximum aggregate number of shares of our common stock available, the Board would make a pro rata allocation of available shares in a uniform and equitable manner. Unless the employee's participation is discontinued, his or her right to purchase shares is exercised automatically at the end of the purchase period at the applicable price. See "Withdrawal" below.

Withdrawal

While each participant in the Purchase Plan is required to sign an agreement authorizing payroll deductions, the participant may withdraw from a given offering by terminating his or her payroll deductions and by delivering to us a notice of withdrawal from the Purchase Plan. Such withdrawal may be elected at any time prior to the end of the applicable purchase period, except as provided by the Board.

Upon any withdrawal from an offering by the employee, we will distribute to the employee his or her accumulated payroll deductions without interest, less any accumulated deductions previously applied to the purchase of shares of our common stock on the employee's behalf during such offering, and such employee's interest in the offering will be automatically terminated. The employee is not entitled to again participate in that offering. However, an employee's withdrawal from an offering will not have any effect upon such employee's eligibility to participate in subsequent offerings under the Purchase Plan.

Termination of Employment

Rights granted pursuant to any offering under the Purchase Plan terminate immediately upon cessation of an employee's employment for any reason, and we will distribute to such employee all of his or her accumulated payroll deductions, without interest.

Restrictions on Transfer

Rights granted under the Purchase Plan are not transferable and may be exercised only by the person to whom such rights are granted.

Duration, Amendment and Termination

The Board may suspend or terminate the Purchase Plan at any time.

The Board may amend the Purchase Plan at any time. Any amendment of the Purchase Plan must be approved by the stockholders within 12 months of its adoption by the Board if the amendment would (i) increase the number of shares of our common stock reserved for issuance under the Purchase Plan, (ii) modify the requirements relating to eligibility for participation in the Purchase Plan, or (iii) modify any other provision of the Purchase Plan in a manner that would materially increase the benefits accruing to participants under the Purchase Plan, if such approval is required in order to comply with the requirements of Rule 16b-3 under the Exchange Act.

Rights granted before amendment or termination of the Purchase Plan will not be altered or impaired by any amendment or termination of the Purchase Plan without consent of the employee to whom such rights were granted.

Effect of Certain Corporate Events

In the event of a dissolution, liquidation or specified type of merger, the surviving corporation either will assume the rights under the Purchase Plan or substitute similar rights, or the exercise date of any ongoing offering will be accelerated such that the outstanding rights may be exercised immediately prior to, or concurrent with, any such event.

Stock Subject to Purchase Plan

Subject to this proposal, an aggregate of 1,950,000 shares of our common stock is, or has been, reserved for issuance under the Purchase Plan. If rights granted under the Purchase Plan expire, lapse or otherwise terminate without being exercised, the shares of common stock not purchased under such rights again become available for issuance under the Purchase Plan.

U.S. Federal Income Tax Information

Rights granted under the Purchase Plan are intended to qualify for favorable federal income tax treatment associated with rights granted under an employee stock purchase plan which qualifies under provisions of Section 423 of the Code.

A participant will be taxed on amounts withheld for the purchase of shares of our common stock as if such amounts were actually received. Other than this, no income will be taxable to a participant until disposition of the acquired shares, and the method of taxation will depend upon the holding period of the acquired shares.

If the stock is disposed of at least two years after the beginning of the offering period and at least one year after the stock is transferred to the participant, then the lesser of (i) the excess of the fair market value of the stock at the time of such disposition over the exercise price or (ii) the excess of the fair market value of the stock as of the beginning of the offering period over the exercise price (determined as of the beginning of the offering period) will be treated as ordinary income.

If the stock is sold or disposed of before the expiration of either of the holding periods described above, then the excess of the fair market value of the stock on the exercise date over the exercise price will be treated as ordinary income at the time of such disposition. The balance of any gain will be treated as capital gain. Even if the stock is later disposed of for less than its fair market value on the exercise date, the same amount of ordinary income is attributed to the participant, and a capital loss is recognized equal to the difference between the sales price and the fair market value of the stock on such exercise date. Any capital gain or loss will be short-term or long-term, depending on how long the stock has been held.

There are no federal income tax consequences to us by reason of the grant or exercise of rights under the Purchase Plan. We are entitled to a deduction to the extent amounts which are taxed as ordinary income to a participant (subject to the requirement of reasonableness and the satisfaction of tax reporting obligations). Any ordinary income that is required to be recognized will not be subject to income or payroll tax withholding.

Equity Compensation Plan Information

The following table is provided as additional information on our equity compensation plans. The information is as of March 31, 2017.

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities Reflected in Column (a))</u>
Equity compensation plans approved by security holders (1)	4,328,045	\$10.60	2,049,570
Equity compensation plans not approved by security holders (2)	<u>757,500</u>	<u>\$11.30</u>	<u>—</u>
Total	<u>5,085,545</u>	\$10.70	<u>2,049,570</u>

(1) This row includes our 1999 Equity Incentive Plan, the 2009 Equity Incentive Plan, the 2011 Equity Incentive Plan, the 2013 Equity Incentive Plan, the 2016 Equity Incentive Plan and the Amended and Restated 1999 Employee Stock Purchase Plan. Of these shares, 128,070 shares remained available as of March 31, 2017 for the grant of future rights under our Amended and Restated 1999 Employee Stock Purchase Plan. Under our Amended and Restated 1999 Employee Stock Purchase Plan, participants are permitted to purchase our common stock at a discount on certain dates through payroll deductions within a pre-determined purchase period. Accordingly, these numbers are not determinable.

(2) This row represents the Zilog 2002 Omnibus Stock Incentive Plan and the Zilog 2004 Omnibus Stock Incentive Plan, which were assumed upon the acquisition of Zilog.

Zilog 2002 Omnibus Stock Incentive Plan

In connection with the acquisition of Zilog, the Board approved the assumption of the Zilog 2002 Omnibus Stock Incentive Plan, or the Zilog 2002 Plan, with respect to the shares available for grant as stock options. Employees of Zilog and persons first employed by our company after the closing of the acquisition of Zilog were eligible to receive grants under the Zilog 2002 Plan. At the time of the assumption of the Zilog 2002 Plan by our company, up to 366,589 shares of our common stock were available for grant under the plan. Currently, there are no shares available under the Zilog 2002 Plan for the grant of new awards but the Zilog 2002 Plan remains in effect for the settlement of awards that were previously granted.

Zilog 2004 Omnibus Stock Incentive Plan

In connection with the acquisition of Zilog, the Board approved assumption of the Zilog 2004 Omnibus Stock Incentive Plan, or the Zilog 2004 Plan. Employees of Zilog and persons first employed by our company after the closing of the acquisition of Zilog were eligible to receive grants under the Zilog 2004 Plan. At the time of the assumption of the Zilog 2004 Plan by our company, up to 652,963 shares of our common stock were available for grant under the plan. Currently, there are no shares available under the Zilog 2004 Plan for the grant of new awards but the Zilog 2004 Plan remains in effect for the settlement of awards that were previously granted.

PROPOSAL 3

ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Section 14A of the Securities Exchange Act of 1934 enables our stockholders to vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC’s rules.

The compensation of our named executive officers subject to the vote is disclosed in the Compensation Discussion and Analysis, the compensation tables and the related narrative disclosure contained in this proxy statement. As discussed in those disclosures, we believe that our compensation policies and decisions are aligned with our stockholders' interests. Compensation of our named executive officers is designed to enable us to attract and retain talented and experienced executives to lead our company successfully in a competitive environment.

We are asking our stockholders to indicate their support for the compensation of our named executive officers as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on the compensation of our named executive officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies, and practices described in this proxy statement. Accordingly, we will ask our stockholders to vote "For" the following resolution at the Annual Meeting:

"RESOLVED, that the company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the company's Proxy Statement for the 2017 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure."

The say-on-pay vote is advisory, and therefore not binding on the company, our Board or our Compensation Committee. Our Board and our Compensation Committee value the opinions of our stockholders and will take into account the outcome of this vote in considering future compensation arrangements.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 3.

PROPOSAL 4

**ADVISORY VOTE ON THE FREQUENCY OF THE
ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

In addition to providing stockholders with the opportunity to cast an advisory vote on the compensation of our named executive officers, the Dodd-Frank Act enables our stockholders to indicate how frequently we should seek an advisory vote on the compensation of our named executive officers. Stockholders may indicate whether they would prefer an advisory vote on executive compensation every one year, every two years or every three years, or may abstain from voting on the proposal.

The Board recommends that this advisory vote be held every year, but stockholders are not voting to approve or disapprove of that recommendation. For several years, we have held an annual advisory vote on executive compensation without undue complexity or burden. The Board recommends that we continue to hold an annual vote.

You may cast your vote on your preferred voting frequency by choosing any of the following four options with respect to this proposal: "Every One Year," "Every Two Years," "Every Three Years" or "Abstain." The vote on the frequency of an advisory vote on the compensation of our named executive officers is advisory, and therefore not binding on the company, our Board or our Compensation Committee. Our Board and our Compensation Committee value the opinions of our stockholders and will take into account the outcome of this vote in considering the frequency of the advisory vote on the compensation of our named executive officers.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR A FREQUENCY OF "EVERY ONE YEAR" FOR
FUTURE ADVISORY VOTES ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**

PROPOSAL 5

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected BDO USA, LLP as the independent registered public accounting firm to conduct the audit for our fiscal year ending March 31, 2018 and has further directed that management submit the selection for ratification by the stockholders at the Annual Meeting. Representatives of BDO are expected to be present at the Annual Meeting, will have an opportunity to make a statement and will be available to respond to appropriate questions.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the selection of BDO as our independent registered public accounting firm. However, the Audit Committee is submitting the selection of BDO to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of us and our stockholders.

Fees Paid to Independent Registered Public Accounting Firm

The following table shows the fees for audit and other services provided by BDO, our independent registered public accounting firm, for fiscal years 2017 and 2016. All figures are net of value added tax and other similar taxes assessed by non-U.S. jurisdictions on the amount billed by BDO, but include out-of-pocket expenses. All of the services described in the following fee table were approved in conformity with the Audit Committee's pre-approval process.

	<u>2017 Fees</u>	<u>2016 Fees</u>
Audit Fees	\$1,444,577	\$1,400,686
Audit-Related Fees	—	—
Tax Fees	5,746	7,202
All Other Fees	—	—
Total	<u>\$1,450,323</u>	<u>\$1,407,888</u>

Audit Fees: For fiscal 2016 and fiscal 2017, this category includes the integrated audit of our consolidated financial statements and internal control over financial reporting, the review of financial statements included in our Forms 10-Q and statutory audits required by non-US jurisdictions.

Tax Fees: For fiscal 2016 and fiscal 2017, this category consists of services for international tax compliance.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to 18 months, and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

The Audit Committee has determined that the rendering of non-audit services by BDO is compatible with maintaining its independence.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 5.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of our common stock as of July 3, 2017 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all current executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

Unless otherwise indicated, the address for each listed stockholder is: c/o IXYS Corporation, 1590 Buckeye Drive, Milpitas, California 95035.

<u>Name and Address of Beneficial Owner</u>	<u>Beneficial Ownership (1)</u>	
	<u>Number of Shares</u>	<u>Percent of Total</u>
Directors and Executive Officers		
Nathan Zommer (2)	6,981,575	21.3%
Uzi Sasson (3)	556,262	1.7%
Donald L. Feucht (4)	72,053	*
Samuel Kory (5)	108,750	*
S. Joon Lee (6)	10,000	*
Timothy A. Richardson (7)	97,500	*
James M. Thorburn (8)	37,672	*
Kenneth D. Wong (9)	67,500	*
All current directors and executive officers as a group (8 persons) (10)	7,931,312	23.6%
5% Stockholders		
Sharkz L.P. (11) 1590 Buckeye Drive Milpitas, CA 95035	2,000,000	6.1%
Dimensional Fund Advisors LP (12) 6300 Bee Cave Road Austin, Texas, 78746	2,354,939	7.2%
Royce & Associates, LP (13) 745 Fifth Avenue New York, NY 10151	1,935,534	5.9%
BlackRock, Inc. (14) 55 East 52nd Street New York, NY 10055	1,833,324	5.6%

* Represents less than 1%.

- (1) This table is based upon information supplied by executive officers, directors and principal stockholders and Schedules 13D and 13G filed with the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 32,595,143 shares outstanding on July 3, 2017, adjusted as required by rules promulgated by the SEC.
- (2) Includes an aggregate of 2,000,000 shares held by Sharkz L.P., a partnership controlled by Dr. Zommer, and 50 shares held by Dr. Zommer as custodian for a minor. Also includes 227,500 shares that Dr. Zommer has the right to acquire within 60 days of July 3, 2017. 1,990,000 shares are pledged as security for a loan.
- (3) Includes 417,500 shares that Mr. Sasson has the right to acquire within 60 days of July 3, 2017.

- (4) Includes an aggregate of 14,553 shares held by or on behalf of Dr. Feucht's wife. Also includes 57,500 shares that Dr. Feucht has the right to acquire within 60 days of July 3, 2017.
- (5) Includes 97,500 shares that Mr. Kory has the right to acquire within 60 days of July 3, 2017.
- (6) Includes 5,000 shares that Dr. Lee has the right to acquire within 60 days of July 3, 2017.
- (7) Constitutes 97,500 shares that Mr. Richardson has the right to acquire within 60 days of July 3, 2017.
- (8) Includes 32,500 shares that Mr. Thorburn has the right to acquire within 60 days of July 3, 2017.
- (9) Constitutes 67,500 shares that Mr. Wong has the right to acquire within 60 days of July 3, 2017.
- (10) Includes 1,002,500 shares that current directors and executive officers have the right to acquire within 60 days of July 3, 2017.
- (11) These shares are also included in the number of shares reported for Dr. Zommer. Dr. Zommer is the general partner of Sharkz L.P. and has sole voting and investment power over the shares of common stock it holds.
- (12) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 9, 2017. Dimensional Fund Advisors LP has sole voting power over 2,254,717 shares and sole investment power over 2,354,939 shares.
- (13) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on January 11, 2017. Royce & Associates, LP has sole voting power over 1,935,534 shares and sole investment power over 1,935,534 shares.
- (14) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on January 25, 2017. BlackRock, Inc. has sole voting power over 1,764,098 shares and sole investment power over 1,833,324 shares.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, or the 1934 Act, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other of our equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based on such forms, during fiscal 2017, all Section 16(a) reports were timely filed.

EXECUTIVE COMPENSATION

This section provides information on our executive compensation program and our compensation philosophy for our named executive officers, who in fiscal 2017 were:

- Nathan Zommer, Chairman of the Board and Chief Executive Officer
- Uzi Sasson, President, Chief Executive Officer, Chief Financial Officer, Secretary and Director

Executive Summary

- Mr. Sasson was named Chief Executive Officer during fiscal 2017. He and Dr. Zommer hold the title concurrently.
- Our annual executive compensation consists principally of salary, cash performance compensation and stock options.
- Total compensation paid to all named executive officers during fiscal 2017, as set forth in our summary compensation table, was about \$ 2.0 million.
- In fiscal 2017, Dr. Zommer's total compensation was reduced by 41.1%, and Mr. Sasson's total compensation was increased by 45.9%, as compared to the fiscal 2016 compensation reported in the summary compensation table.
- Dr. Zommer beneficially owns more than one-fifth of our company's outstanding common stock. This ownership interest constitutes a significant performance-based incentive that is not included in current executive compensation.

Compensation Discussion and Analysis

This discussion and analysis should be read along with the tables and text under "Executive Compensation" that follow hereafter. Throughout this discussion and analysis, the "Committee" refers to the Compensation Committee and "executives" refers to our executive officers. Generally, the Committee limits its deliberations to individuals determined by the Board to be executive officers under the rules of the SEC, except for equity compensation and except for compliance with the rules of the SEC. The compensation of other employees is determined under the direction of the Chief Executive Officers.

Our Compensation Philosophy

Our success begins with our culture of innovation, cooperation and efficiency. Our compensation programs are designed to support this culture by allowing us to:

- *Motivate and reward performance.* We believe that compensation should vary with performance, and that a significant portion of an executive's pay should be linked to individual and corporate performance.
- *Align employee pay with stockholder objectives.* We believe that our pay program should connect executives' interests with stockholders' interests. In particular, we believe that pay should reward executives for growing the market value of our company's stock.
- *Manage resources efficiently.* Compensation is a significant expense, which should be managed appropriately to achieve our executive reward and retention goals while also protecting stockholder interests.
- *Attract and retain personnel.* The semiconductor industry is a competitive landscape, where experienced and talented employees are in demand. Executive compensation must be competitive to attract and retain the individuals we need to lead our business.

Our Executive Compensation Program

Our executive compensation program consists of six components:

- Salary

- Cash performance compensation
- Other cash bonuses
- Equity compensation
- Employee benefits
- Severance and change-in control compensation

Our philosophy is to offer competitive salaries to our executives and to provide significant rewards through incentive pay. Incentive cash opportunities are calibrated to be competitive when performance objectives are achieved and are primarily intended to reward for performance during the corresponding fiscal year. Exceptional rewards may be provided through equity compensation, but only to the degree that our stock price appreciation is strong. Equity compensation is intended to reward for long-term performance, in the expectation that is likely to constitute a significant sum in the event of long-term growth in the profitability of our company. In determining executive compensation, the Committee reflects on compensation in immediately preceding years, but considers every year to be a new page where goals and potential compensation could be substantially changed. In general, we place more emphasis on performance compensation than on salary. While we seek to offer competitive salaries, we believe we can create a stronger link between pay and performance by directing executive pay towards incentive cash performance compensation and equity rewards.

Salaries

We provide salaries sufficient to attract and retain key executives. To determine the appropriate salary for an executive, the Committee considers a number of factors, including the executive's responsibilities, experience, past performance, and expected future contribution to our company. The Committee also considers the salaries of executives in similar positions at comparable companies. Generally, in setting salaries the Committee seeks to pay competitive salaries and to provide the funds necessary for a current standard of living for the executive.

Cash Performance Compensation

Our cash performance compensation program is intended to provide economic incentives for executives to work for the achievement of objectives that the Committee believes will foster our growth and profitability. It rewards executives in light of their achievement of their performance objectives and for helping us achieve our annual financial goals. Each year, the Committee develops a cash performance compensation program for the two most senior executives. To establish these programs, the Committee considers the executive's responsibilities and expected contributions to our company.

The cash performance compensation program is composed of a series of objectives, a set of weights for the objectives and three potential performance levels, consisting of a threshold level, a target level and a maximum level. Objectives are set in light of the Committee's views on the goals and challenges for our company and the individual for the corresponding fiscal year.

Other Cash Bonuses

From time to time, the Committee has awarded cash bonuses outside of the cash performance compensation structure. These bonuses relate to circumstances unique to the individual and often to recognition for years of service to our company or for a specific achievement.

Equity

We believe equity-based compensation is critical to our overall pay program for executives. Equity-based compensation provides several significant advantages:

- It allows us to provide exceptional potential rewards. Those exceptional rewards are realized, however, only if our growth is strong as evidenced by stock price appreciation and value is created for stockholders.

- It creates a strong incentive for executives to improve financial results and take the right actions to increase our value over the long term. Because the ultimate value of the award varies with our stock price, which is in turn affected by our results, equity-based compensation creates a strong link between pay and performance.
- It links executives' interests directly with stockholders' interests, since rewards depend on stock performance.

Determining the Size of Individual Equity Incentive Awards

To determine the appropriate size of an executive's equity incentive award, the Committee considers several factors, including the executive's past performance and expected future contribution, the retention value of the executive's prior unvested equity incentives and our growth and performance outlook.

Timing of Grants

Historically, executives generally received an equity incentive award following employment and, thereafter, a single equity incentive award each year. We do not grant re-load options, make loans to executives to exercise their equity incentives or grant equity incentives at a discount. The Committee generally grants equity incentives to our executives at regular quarterly meetings. The Committee does not have an express policy regarding the timing of grants to executives. The Board or the Committee may grant equity incentives when in possession of material non-public information.

Exercise Price

The exercise price of all stock option grants is, at a minimum, the closing price of a share of our common stock on Nasdaq on the date of grant.

Vesting

Equity incentive awards cannot be exercised until they vest. The principal purpose of vesting is to serve as an employee retention tool. Employees who leave before their awards vest lose any value in their unvested equity incentive awards. The vesting requirements for our executives are typically the same as those for our employees. Generally, our equity incentive awards for employees vest in equal annual installments over a four year period or, in other words, at the rate of 25% per year.

Other Benefits

We provide Dr. Zommer and Mr. Sasson with a limited number of benefits not generally made available to all employees. These benefits primarily consist of the use of cars, related car allowances, term life insurance and reimbursement for tax planning and the preparation of tax returns. These benefits for senior executives are a longstanding practice by our company and the Committee has viewed them as immaterial in amount. These benefits are required by the terms of their employment agreements. See "Executive Compensation – Employment Agreement." In addition, as directors, Dr. Zommer and Mr. Sasson receive a benefit accorded directors, the reimbursement of tax return and estate planning expenses.

Like all of our full-time domestic employees, our executives are eligible to participate in our Purchase Plan, our 401(k) plan and other health and welfare insurance programs, although Dr. Zommer is not eligible to participate in our Purchase Plan because of his stock ownership. We believe we offer a competitive package of health and welfare programs. To ensure our total compensation package remains competitive with other companies, we compare our health and welfare benefits with the packages offered by other companies.

Severance and Change of Control Provisions

We have severance and change of control agreements with Dr. Zommer and Mr. Sasson. See "Executive Compensation – Potential Payments upon Termination or Change of Control." The Committee believes that executive severance and change of control provisions are appropriate for our senior executives. These provisions

are sometimes necessary to attract or retain key personnel and to assist executives in focusing on the best course for our company. The Committee has selected a double trigger in the event of a change of control for the payment of compensation, in the belief that incremental compensation is appropriate only if there is a loss of, or material change in, a position after a change of control.

Determining Executive Pay

After the end of each fiscal year, the Committee reviews our executive compensation program. The review involves the analysis of market pay practices, the assessment of our existing pay practices and the consideration of our goals for the future. As a result of this review, the executive compensation program for the next fiscal year is formulated.

At the same time as establishing the compensation program for the current year, the process of evaluating individual performance and making incentive cash compensation decisions for the prior fiscal year is also occurring. Currently, our Chief Executive Officers are our named executive officers. In theory, our Chief Executive Officers would review the pay and performance of each executive other than themselves and make pay recommendations to the Committee for each of those executives. The Committee would review those recommendations, taking into account:

- The Chief Executive Officers' assessment of the performance of each executive other than themselves;
- Each executive's pay history and unvested equity incentives;
- The difficulty of the executive's role; and
- Periodically, but not annually, executive pay at comparable companies.

As necessary, the Committee would discuss changes to the Chief Executive Officers' recommendations with the Chief Executive Officers and then would approve compensation actions for each executive.

The Committee makes compensation decisions for the Chief Executive Officers separately without the Chief Executive Officers' participation. The Committee evaluates the Chief Executive Officers' performance in light of its judgment of results achieved. Input on our Chief Executive Officers' performance is also solicited from the other members of the Board.

At the end of this process, the Committee's decisions included the following compensation actions for our Chief Executive Officers:

- Objectives, weights and performance levels for the cash performance compensation programs for the current fiscal year;
- Any changes to salary; and
- The amount of any equity incentive awards for the fiscal year.

The decisions of the Committee were then communicated to the executives by the Chairman of the Committee.

Stockholder Vote on Executive Compensation

At the 2016 annual meeting of stockholders, more than 98% of the shares voted on the compensation of the named executive officers were voted in favor of such compensation. The Compensation Committee considered the result of that vote, concluded that the vote constituted general support for the company's executive compensation policies and decisions and expects to continue on a similar path in the future.

Executive Compensation Consulting

From time to time, the Committee engages an executive compensation consulting firm to provide advice on compensation issues identified by the Committee and to gather and analyze third-party data about the compensation practices of peer companies. The Committee expects that the compensation consultant will report directly to the Committee and work solely for the Committee. Our company did not employ compensation consultants during fiscal 2017.

Peer Group Assessment

In setting executive pay, we are mindful of the competitive market. To gauge our pay against our competitors and against the broader marketplace, the Committee has, from time to time, requested our compensation consultant to provide us with information on the pay practices generally occurring in the semiconductor industry. For fiscal 2017, the Committee determined the following companies, generally semiconductor manufacturers of similar size or competitors, to be our peers for executive compensation purposes:

Alpha & Omega Semiconductor Limited	DSP Group, Inc.	Power Integrations, Inc.
Applied Micro Circuits Corporation	Exar Corporation	Sigma Designs, Inc.
Cohu, Inc.	Lattice Semiconductor Corporation	
Diodes Incorporated	MaxLinear, Inc.	

In determining peer companies, the Committee exercised discretion regarding compensation decisions rather than adhering to any particular benchmark or formula.

Executive Pay Decisions for Fiscal 2017

Under their employment agreements effective during fiscal 2017, Dr. Zommer's annual salary was agreed to be at least \$525,000 and Mr. Sasson's annual salary was agreed to be at least \$395,000. As a part of its regular practice in setting the salaries of the two executives, the Committee considers the responsibilities of the executives beyond those typically associated with their roles; in particular, that Dr. Zommer serves as the senior technical executive of our company and that Mr. Sasson has significant operational responsibilities and serves as the senior sales executive of our company. For fiscal 2017, the salary of Dr. Zommer was paid at an annual rate of \$450,000, which had been adjusted downward effective April 1, 2016. The salary of Mr. Sasson was paid at an annual rate of \$395,000 until August 2016 and thereafter paid at an annual rate of \$430,000. During fiscal 2017, in accordance with our general policy for employees, Mr. Sasson cashed out vacation days for a payment of \$16,538. Dr. Zommer had no vacation cash out during fiscal 2017.

Cash Performance Compensation

In establishing the cash performance compensation program for fiscal 2017, the Committee initially set a target award for Dr. Zommer of \$450,000. The Committee set a target award for Mr. Sasson of \$400,000. The Committee initially established a maximum potential award for Dr. Zommer of \$675,000. Mr. Sasson's was set at \$600,000. The Committee established potential threshold awards for Dr. Zommer and Mr. Sasson of \$225,000 and \$200,000, respectively. For both executives, the set of objectives consisted of three quantitative objectives and one qualitative objective. Each quantitative objective consisted of three numbers, with a number corresponding to each of the concepts of threshold, target and maximum.

The fiscal 2017 objectives, weights and performance levels were as follows:

<u>Objective</u>	<u>Weight</u>	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
		<u>(Dollars in millions)</u>		
Net revenues	30%	\$318.0	\$337.7	\$355.0
Gross margin	30%	30.5%	31.9%	32.7%
Adjusted EBITDA (1)	30%	\$ 46.0	\$ 52.0	\$ 57.5
Discretionary	10%	—	—	—

(1) Adjusted EBITDA was defined as earnings before interest, taxes, depreciation, amortization and stock compensation expense. For the calculation of Adjusted EBITDA, the impairment of intangible assets during fiscal 2017 was included, since that was consistent with the amortization of intangible assets.

In reviewing performance in comparison to the quantitative objectives, the Committee concluded that the gross margin objective had exceeded the maximum performance level, but that the net revenues and adjusted EBITDA objectives had only met the threshold performance levels. In evaluating the discretionary objective, the Committee decided to award the maximum amount for the objective to Mr. Sasson. The Committee then went

through the process of multiplying the weight for each objective against the potential award payable to the executive at threshold, target and maximum, interpolating the quantitative performance achieved for an objective between the nearest performance levels and calculating an amount for the objective based on the interpolation. The Committee then added the calculated amounts to determine the amount of the award. Ultimately, through its quantitative and qualitative assessments, Mr. Sasson was awarded \$381,487, which constituted 95% of his target award. Dr. Zommer did not receive a cash performance award for fiscal 2017.

Equity

In fiscal 2017, the Board granted an option for 5,000 shares to Dr. Zommer on the same terms as the options granted to nonemployee directors. The Committee granted Mr. Sasson an option for 130,000 shares. The size of the grant to Mr. Sasson reflected past individual and company performance and expected future contribution.

Tax and Accounting Implications

Section 162(m) of the Code places a limit of \$1,000,000 on the amount of compensation that we may deduct from our taxes in a year with respect to our executive officers. Section 162(m) limits the types of compensation that are deductible resulting in some compensation that does not qualify as tax deductible. While the Committee is mindful of the benefit to our company performance of full deductibility of compensation, we believe the Committee must not be constrained by the requirements of Section 162(m) as those requirements could impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives. Therefore, the Committee has not adopted a policy that requires that all compensation be deductible. The Committee intends to continue to compensate our executive officers in a manner consistent with the best interests of our company and the stockholders.

The authoritative guidance provided by the Financial Accounting Standards Board requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the awards, and is recognized as an expense over the requisite employee service period. We use the Black-Scholes pricing model to estimate the fair value of each award.

Compensation and Risk

Our Compensation Committee has discussed the concept of risk as it relates to our compensation of employees, reviewed the employee compensation used in our company and the Compensation Committee does not believe our employee compensation encourages excessive or inappropriate risk taking for the following reasons:

- Our use of different types of compensation methods provides a balance of long and short-term incentives with fixed and variable components.
- We grant equity-based awards with time-based vesting, which encourages participants to look to long-term appreciation in equity values.
- The objectives used to determine the amount of an executive officer's cash performance award address overall performance, which we believe promotes long-term value. In addition, an executive's cash performance award cannot exceed a pre-established maximum amount, no matter how much financial performance exceeds the objectives established at the beginning of the year.
- Our system of internal control over financial reporting, Code of Ethics, and whistleblower program, among other things, reduce the likelihood of manipulation of our financial performance to enhance incentive payments.

Summary Compensation Table

The following table shows for the fiscal year ended March 31, 2017 compensation awarded to or paid to, or earned by, our Chief Executive Officers and our Chief Financial Officer, together referred to as our named executive officers, at March 31, 2017.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$ (1))</u>	<u>Option Awards (\$ (2))</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Nathan Zommer	2017	450,000	—	24,941	—	19,698(3)	494,639
Chairman of the Board and Chief Executive Officer	2016	545,192	78,800	21,529	175,033	19,870	840,424
	2015	571,423	55,500	27,701	328,638	18,738	1,002,000
Uzi Sasson	2017	431,192(4)	60,000	648,474	321,487	34,550(5)	1,495,703
President, Chief Executive Officer and Chief Financial Officer	2016	409,231	60,000	387,522	133,333	34,863	1,024,949
	2015	382,308	40,000	443,219	236,856	36,775	1,139,158

- (1) Consists of the sum awarded under the cash performance compensation program for the discretionary objective.
- (2) Note 10 of the Notes to Consolidated Financial Statements set forth in our Annual Report on Form 10-K for the year ended March 31, 2017 discloses the assumptions made in valuing the rights. For Dr. Zommer, constitutes compensation for being a director.
- (3) Includes car expense of \$7,648, \$7,431 in contributions by our company matching certain of Dr. Zommer's 401(k) plan contributions, estate planning charges of \$2,850 and other compensation payments aggregating to \$1,769. Other compensation payments include payments related to bill paying and bookkeeping services. For fiscal 2017, bill paying and bookkeeping services were valued based on an estimate of the hours involved and the hourly rate of the person providing the services.
- (4) Includes vacation cash-out of \$16,538.
- (5) Includes car expense of \$13,347, \$13,103 of term life insurance premium and \$8,100 in contributions by our company matching certain of Mr. Sasson's 401(k) plan contributions.

We provide or reimburse for car expense for Dr. Zommer and Mr. Sasson, including associated expenses such as insurance, registration and maintenance. Our directors, including Dr. Zommer and Mr. Sasson, are reimbursed for their estate planning and tax planning and return preparation expenses. Because Dr. Zommer spends significant time traveling to our worldwide locations and customers, we provide bill paying and bookkeeping services to Dr. Zommer.

Employment Agreements

Dr. Zommer and Mr. Sasson are the only executive officers who have employment agreements. Each agreement was executed in August 2015 and terminates July 31, 2018.

Dr. Zommer's agreement provides that he will be paid an annual base salary of at least \$525,000 and that he will be considered for an annual performance bonus, as determined by the Board in its discretion. For fiscal 2017, the annual rate of Dr. Zommer's salary was reduced to \$450,000. He is to receive the benefits made available to senior executives generally, as well as the following specifically described in his agreement: an annual medical exam; term insurance in the amount of \$2,000,000 on his life, payable to his designee; the services of a personal tax or investment advisor, in an amount not to exceed \$2,000 per year; the use of a car, of make and model determined by Dr. Zommer and the Board, including maintenance, gas and insurance; 10 hours per month of bill paying and bookkeeping services; and annual vacation in an amount equal to 15 days plus one-half day for each full year of service after June 1, 2003. Additionally, Dr. Zommer is entitled to the payments and benefits described in "Potential Payments upon Termination or Change of Control," upon the events described there. During fiscal 2007, Dr. Zommer caused the term life insurance provided pursuant to his agreement to be cancelled.

Mr. Sasson’s agreement provides that he will be paid an annual base salary of at least \$395,000 and that he will be considered for an annual performance bonus, as determined by the Board in its discretion. During fiscal 2017, the annual rate of Mr. Sasson’s salary was increased to \$430,000. He is to receive the benefits made available to senior executives generally, as well as the following specifically described in his agreement: an annual medical exam; term insurance in the amount of \$2,000,000 on his life, payable to his designee; the services of a personal tax or investment advisor, in an amount not to exceed \$2,000 per year; the use of a car, of make and model determined by Mr. Sasson and the Board, including maintenance, gas and insurance; and annual vacation in an amount equal to 15 days. Additionally, Mr. Sasson is entitled to the payments and benefits described in “Potential Payments upon Termination or Change of Control,” upon the events described there.

Grants of Plan-Based Awards

The following table provides information regarding all incentive plan awards that were made to or earned by our named executive officers during fiscal 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Option Awards: Number of Securities Underlying Options (#) (2)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Nathan Zommer	8/26/16	202,500	405,000	607,500	5,000	11.58	24,941
Uzi Sasson	8/26/16	180,000	360,000	540,000	130,000	11.58	648,474

(1) These amounts constitute the threshold, target and maximum amounts applicable to the quantitative objectives under the cash performance compensation program for fiscal 2017.

(2) The options awards were granted under the 2013 Equity Incentive Plan.

Option Exercises in Fiscal Year 2017

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Nathan Zommer	—	—
Uzi Sasson	410,000	1,578,300

Outstanding Equity Awards at Fiscal 2017 Year End

The following table shows for the fiscal year ended March 31, 2017, certain information regarding outstanding equity awards at fiscal year end for the named executive officers.

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Nathan Zommer	200,000	—	10.30	06/07/17
	170,000	—	12.65	09/05/18
	20,000	—	9.37	08/27/20
	20,000	—	12.25	09/16/21
	5,000	—	9.45	08/24/22
	3,750	1,250(1)	9.27	08/30/23
	2,500	2,500(2)	11.83	08/28/24
	1,250	3,750(3)	11.14	08/28/25
Uzi Sasson	—	5,000(4)	11.58	08/26/26
	80,000	—	8.64	05/21/20
	80,000	—	12.25	09/16/21
	80,000	—	9.45	08/24/22
	30,000	10,000(5)	9.27	08/30/23
	40,000	40,000(6)	11.83	08/28/24
	22,500	67,500(7)	11.14	08/28/25
	—	130,000(8)	11.58	08/26/26

- (1) 1,250 shares vest on each anniversary of August 30.
(2) 1,250 shares vest on each anniversary of August 28.
(3) 1,250 shares vest on each anniversary of August 28.
(4) 1,250 shares vest on each anniversary of August 26.
(5) 10,000 shares vest on each anniversary of August 30.
(6) 20,000 shares vest on each anniversary of August 28.
(7) 22,500 shares vest on each anniversary of August 28.
(8) 32,500 shares vest on each anniversary of August 26.

Potential Payments upon Termination or Change of Control

Dr. Zommer

Dr. Zommer's employment agreement provides for certain payments and benefits in connection with termination of his employment or a change of control. In the event he is terminated without cause, he is entitled to a single payment equal to 18 months of salary, as well as a single lump sum equal to the amount payable for health insurance coverage under COBRA for 18 months. If he becomes disabled for three months in a six month period, his salary will continue to be paid, along with benefits, by us for a period of 18 months, after which his employment shall terminate. If his employment terminates, either without cause or for good reason, within one year of a change of control, he is entitled to a single payment from us equal to three times his average annual cash compensation over the last three years. Additionally, upon such event, he is entitled to a continuation of his benefits from us, both as provided to employees generally and as specifically described in his employment

agreement, for a period of 18 months, as well as the immediate vesting of all unvested stock options. Payments and benefits in the event of his termination without cause, or in the event of his termination without cause or good reason within one year of change of control, are conditioned upon his execution and delivery of a release in favor of our company.

Under his employment agreement, cause means conviction of any felony or any crime involving moral turpitude or dishonesty; participation in a fraud or act of dishonesty against our company; willful breach of our policies; intentional damage to our property; or breach of the employment agreement or any other agreement with us. Change of control means any reorganization, consolidation or merger in which we are not the surviving corporation or where our voting stock would be converted into cash, securities or other property, other than a merger where our stockholders have the same proportionate ownership of voting stock after the merger; the sale, exchange or other transfer to an unaffiliated third party of at least a majority of our voting stock; or the sale, lease, exchange or other transfer of all, or substantially all, of our assets. Good reason means reduction of his rate of salary compensation as in effect immediately prior to the change of control by more than five percent; failure to provide a package of welfare benefit plans that, taken as a whole, provide substantially similar benefits to those in which he is entitled to participate immediately prior to the change of control, except that employee contributions may be raised to the extent of any cost increases imposed by third parties, or any action by us that would adversely affect his participation or reduce his benefits under any of such plans; change in his responsibilities, authority, titles or offices resulting in diminution of position, excluding insubstantial, inadvertent actions and noting that the fact the company is no longer public or the ultimate parent is not such a diminution; request that he relocate to a worksite that is more than 35 miles from his prior worksite; failure or refusal of the successor company to assume our obligations under his employment agreement; or material breach by us or any successor company of any of the material provisions of his employment agreement.

The following table sets forth estimates of the value of the payments and the benefits that would have been receivable by Dr. Zommer under his employment agreement in connection with termination or a change of control as of March 31, 2017.

<u>Executive Benefits and Payments upon Termination or Change of Control</u>	<u>Involuntary Termination Without Cause (\$)</u>	<u>Involuntary Termination For Cause (\$)</u>	<u>Disability (\$)</u>	<u>Termination without Cause or For Good Reason within One Year after Change of Control (\$)</u>
Cash payment	675,000(1)	—	675,000(1)	2,204,586(2)
Vesting of option awards (3)	—	—	29,350	41,038
401(k) match (4)	—	—	11,147	11,147
Car expense (4)	—	—	11,472	11,472
Health insurance (4)	21,852	—	21,852	21,852
Other benefits (4)(5)	—	—	11,232	11,232
Total	696,852	—	760,053	2,301,327

(1) Based on the salary rate in effect at March 31, 2017.

(2) Based on the cash compensation earned during the three fiscal years ended March 31, 2017.

(3) Represents the fair market value of stock awards that would become vested due to termination, based on closing price of a share of our common stock on March 31, 2017, which was \$14.55. For disability, assumes vesting of options that would occur within 18 months.

(4) Assumes 18 months of benefits for involuntary termination without cause, disability and termination after change of control. Benefits are estimated using fiscal 2017 data.

- (5) Consists of dental insurance, group life insurance, tax or investment advisor reimbursement (estimated at \$2,000 per year), annual medical exam reimbursement (estimated at \$1,000 per year) and bill paying and bookkeeping services.

Mr. Sasson

Mr. Sasson’s employment agreement provides for certain payments and benefits in connection with termination of his employment or a change of control. In the event he is terminated without cause, he is entitled to a single payment equal to one month’s salary for each year of service (prorated for a partial year), but not more than 18 months of salary, as well as a single lump sum equal to the amount payable for health insurance coverage under COBRA for 18 months. If he becomes disabled for three months in a six month period, his salary will continue to be paid, along with benefits, by us for a period of 18 months, after which his employment shall terminate. If his employment terminates, either without cause or for good reason, within one year of a change of control, he is entitled to a single payment from us equal to two times his average annual cash compensation over the last three years. Additionally, upon such event, he is entitled to a continuation of his benefits from us, both as provided to employees generally and as specifically described in his employment agreement, for a period of 18 months, as well as the immediate vesting of all unvested stock options. Payments and benefits in the event of his termination without cause, or in the event of his termination without cause or good reason within one year of change of control, are conditioned upon his execution and delivery of a release in favor of our company. Cause, change of control and good reason have definitions identical to those in Dr. Zommer’s agreement.

The following table sets forth estimates of the value of the payments and the benefits that would have been receivable by Mr. Sasson under his employment agreement in connection with termination or a change of control as of March 31, 2017.

Executive Benefits and Payments upon Termination or Change of Control	Involuntary Termination Without Cause (\$)	Involuntary Termination For Cause (\$)	Disability (\$)	Termination without Cause or For Good Reason within One Year after Change of Control (\$)
Cash payment	441,944(1)	—	645,000(1)	1,382,938(2)
Vesting of option awards (3)	—	—	508,100	777,875
401(k) match (4)	—	—	12,150	12,150
Car expense (4)	—	—	20,021	20,021
Health insurance (4)	38,448	—	38,448	38,448
Other benefits (4)(5)	—	—	30,185	30,185
Total	480,392	—	1,253,904	2,261,617

- (1) Based on the salary rate in effect at March 31, 2017.
- (2) Based on the cash compensation earned during the three fiscal years ended March 31, 2017.
- (3) Represents the fair market value of stock awards that would become vested due to termination, based on closing price of a share of our common stock on March 31, 2017, which was \$14.55. For disability, assumes vesting of options that would occur within 18 months.
- (4) Assumes 18 months of benefits for involuntary termination without cause, disability and termination after change of control. Benefits are estimated using fiscal 2017 data.
- (5) Consists of dental insurance, group life insurance, term life insurance, tax or investment advisor reimbursement (estimated at \$2,000 per year) and annual medical exam reimbursement (estimated at \$1,000 per year).

Director Compensation

The following table shows for the fiscal year ended March 31, 2017 certain information with respect to the compensation of all of our non-employee directors:

Director Compensation for Fiscal 2017

<u>Name (1)</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Option Awards (\$) (1) (2)</u>	<u>All Other Compensation (\$) (3)</u>	<u>Total (\$)</u>
Donald L. Feucht	79,000	24,941	7,771	111,712
Samuel Kory	77,000	24,941	750	102,691
S. Joon Lee	77,000	24,941	3,965	105,906
Timothy A. Richardson	88,000	24,941	—	112,941
James M. Thorburn	89,000	24,941	3,205	117,146
Kenneth D. Wong	85,000	24,941	—	109,941

- (1) These amounts reflect the value determined by us for accounting purposes for these awards and do not reflect whether each director has actually realized benefit from the awards. The value of the equity awards is based on the grant date fair value calculated in accordance with the amount recognized for financial statement reporting purposes. Amounts reported for stock options are determined using the Black-Scholes option pricing model. See Note 10, to our audited financial statements for the fiscal year ended March 31, 2017, included in our Annual Report on Form 10-K, for a further discussion of the relevant valuation assumptions used in calculating grant date fair value.
- (2) Each non-employee director listed in the table above was granted a stock option for 5,000 shares of our common stock on August 26, 2016. Each of these awards had a grant date fair value of \$24,941. The following table sets forth the number of outstanding option awards at March 31, 2017:

<u>Name</u>	<u>Number of Shares Underlying Unexercised Options</u>
Donald L. Feucht	78,500
Samuel Kory	125,000
S. Joon Lee	32,500
Timothy A. Richardson	105,000
James M. Thorburn	60,000
Kenneth D. Wong	75,000

- (3) All other compensation represents reimbursements for expenses incurred in preparing the director's personal income tax returns and in estate planning.

Each of the non-employee directors currently receives an annual retainer of \$70,000. Additionally, each non-employee director is also paid a retainer for each additional committee of the Board on which he serves. The Chairs of the standing committees of the Board are paid retainers as follows: Chair of the Audit Committee, \$15,000; Chair of the Compensation Committee, \$10,000; and Chair of the Nominating and Corporate Governance Committee, \$6,000. Other members of the standing committees are paid retainers as follows: Audit Committee member, \$7,000; Compensation Committee member, \$5,000; and Nominating and Corporate Governance Committee member, \$2,000. Additionally, each director is reimbursed for expenses incurred in preparing their personal income tax returns and estate planning matters. Meeting attendance fees are not paid.

Equity incentives are granted to non-employee directors pursuant to a discretionary grant mechanism administered by the Board. All equity incentives for non-employee directors will vest in full in connection with a change of control of our company. Each option has an exercise price equal to the fair market value of our common stock on the date of grant, based on the closing sales price reported on the Nasdaq Global Select Market for the date of grant.

TRANSACTIONS WITH RELATED PERSONS

Related Person Transactions Policy and Procedures

Section 4 of our Code of Ethics sets forth our policy regarding disclosure by an employee or director of a conflict of interest. A related party transaction may be a conflict of interest. Under Section 4 of our Code of Ethics, executive officers and directors are to disclose conflicts of interest to the Audit Committee. When transactions that fall within the coverage of Item 404(a) of Regulation S-K promulgated under the Securities Exchange Act of 1934 are identified, they are submitted to the Audit Committee for review, approval or ratification, excepting indemnity agreements, the form of which was previously approved by the stockholders. Evidence of the policy is set forth in Section 4 of our Code of Ethics and the charter of the Audit Committee. The Audit Committee considers transactions on a case-by-case basis in light of the applicable facts and circumstances, and has not developed specific standards for such review, approval or consideration. Review, approval or ratification is evidenced in the minutes of the Audit Committee. The policies and procedures are not otherwise set forth in writing.

Related Person Transactions

We have entered into indemnity agreements with our executive officers and directors containing provisions that may require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or services as officers or directors.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for stockholders and cost savings for companies.

A number of brokers with account holders who are our stockholders will be “householding” our proxy materials. A single proxy statement and annual report will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement and annual report, please notify your broker. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request “householding” of their communications should contact their brokers.

OTHER MATTERS

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors



Uzi Sasson
Secretary

July 28, 2017

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on August 31, 2017.

Copies of the proxy statement, the form of proxy and our annual report for the fiscal year ended March 31, 2017 are available at <http://www.ixys.com/Documents/InvestorRelations/AnnualReport2017.pdf>

You may also obtain such copies free of charge by writing to Uzi Sasson, Secretary, IXYS Corporation, 1590 Buckeye Drive, Milpitas, CA 95035.

Annual Report to Stockholders



For the Year Ended
March 31, 2017

 **IXYS**

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-26124

IXYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0140882
(I.R.S. Employer
Identification No.)

1590 Buckeye Drive
Milpitas, California 95035-7418
(Address of principal executive offices and zip code)
(408) 457-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value \$0.01 per share
(Title of each class)

The NASDAQ Global Select Market
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 such 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the last sale price on the NASDAQ Global Select Market on September 30, 2016, was approximately \$302,897,030. For purpose of this calculation, shares held or controlled by directors and executive officers have been excluded because they may be deemed to be "affiliates." This determination is used for convenience and is not conclusive for any purpose. The number of shares of the registrant's Common Stock outstanding as of May 23, 2017 was 32,014,315.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its Annual Meeting of Stockholders to follow its fiscal year ended March 31, 2017, to be filed subsequently — Part III of this Annual Report on Form 10-K.

IXYS CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that include, but are not limited to, statements concerning projected revenues, expenses, gross profit and income and the need for additional capital. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. In some cases, these statements may be identified by terminology, such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable expressions. These statements involve known and unknown risks and uncertainties that may cause our results, levels of activity, performance or achievements or our industry to be materially different than those expressed or implied by the forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, our ability to compete successfully in our industry, to continue to develop new products on a timely basis, cancellation of customer orders and other factors discussed below and under the caption "Risk Factors" in Item 1A. We disclaim any obligation to update any of the forward-looking statements contained in this report to reflect any future events or developments, except as may be required by law.

PART I

Item 1. *Business*

We are a multi-market integrated semiconductor company. We specialize in the development, manufacture and marketing of high performance power semiconductors, advanced mixed-signal integrated circuits, or ICs, application specific integrated circuits, or ASICs, microcontrollers, systems and radio frequency, or RF, power semiconductors.

Our power semiconductors improve system efficiency and reliability by converting electricity at relatively high voltage and current levels into the finely regulated power required by electronic products. We focus on the market for power semiconductors that are capable of processing greater than 200 watts of power.

Our power semiconductor products have historically been divided into two primary categories, power MOS, or metal-oxide-silicon, transistors and bipolar products. Our power semiconductors are sold as individual units and are also packaged in high power modules that frequently consist of multiple semiconductor die. In our fiscal year ended March 31, 2017, or fiscal 2017, power semiconductors constituted approximately 68.8% of our revenues, which included 32.5% of revenues from power MOS transistors and related products and 36.3% of revenues from bipolar products. References to revenues in this Annual Report on Form 10-K constitute references to net revenues, except where the context otherwise requires.

Our power semiconductor products are used primarily to control electricity in:

- power conversion systems, including uninterruptible power supplies, or UPS, and switch-mode power supplies, or SMPS, for applications, such as communications infrastructure, including wireless base stations, network servers and telecommunication switching stations;
- motor drives for industrial applications, such as industrial transportation, robotics, automation and process control equipment;
- medical electronics for sophisticated applications, such as defibrillators and MRI equipment; and
- renewable energy sources, such as wind turbines and solar systems.

We design and sell ICs that have applications in appliances, telecommunications, display, power management and security systems. In fiscal 2017, ICs constituted approximately 25.4% of our revenues.

Our microcontroller semiconductor products are designed for a variety of applications, including consumer electronics, home appliances and security systems. Our mixed-signal ICs are used in telecommunications products, central office switching equipment, customer premises equipment, set top boxes, remote meter reading equipment, security systems, advanced flat displays, medical electronics and defense aerospace systems.

Our systems include laser diode drivers, high voltage pulse generators and modulators, and high power subsystems, sometimes known as stacks, that are principally based on our high power semiconductor devices.

We also design and sell RF power semiconductors that switch electricity at the high rates required by circuitry that generates radio frequencies. Our RF power devices are used in wireless infrastructure, industrial RF applications, medical systems and defense and space electronics. In fiscal 2017, systems and RF power semiconductors constituted approximately 5.8% of our revenues.

We design our power semiconductor, ICs, and systems and RF power semiconductor products primarily for industrial and business applications, rather than for use in consumer electronics.

In fiscal 2017, our products were used by over 3,500 end customers worldwide. Our major end customers include ABB, Boston Scientific, General Electric, Medtronic, Nidec, Schneider Electric, Siemens and Universal Electronics.

We were founded in 1983 and are incorporated in the state of Delaware.

Background

The worldwide demand for electrical energy is currently increasing due to:

- proliferation of technology-driven products that require electricity, including computers, telecommunications equipment and the infrastructure to support portable electronics;
- increased use of electronic content in traditional products such as automobiles and home appliances;
- increased use of automation and electrical processes in industry and mass transit systems;
- growth of the internet and mobile telecommunications demand; and
- penetration of technology into developing countries.

Not only is demand increasing, but the requirements for electricity are also changing. Electronic products in all markets are becoming increasingly sophisticated, offering more “intelligence” through the use of microprocessors and additional solid-state components. The increasing complexity of such products requires more precisely regulated power and greater power reliability. In addition, the increasing costs of electricity, coupled with governmental regulations and environmental concerns, have caused an increased demand for energy efficiency.

Power semiconductors are used to provide the precisely regulated power required by sophisticated electronic products and equipment and address the growing demand for energy efficiency. In most cases, power semiconductors:

- convert, or “rectify,” alternating current, or AC, power delivered by electrical utilities to the direct current, or DC, power that is required by most electronic equipment;
- convert DC power at a certain voltage level to DC power at a different voltage level to meet the specific voltage requirement for an application;
- invert DC power to high frequency AC power to permit the processing of power through the use of substantially smaller electronic components; or
- rectify high frequency AC power from switch-mode power supplies to meet the specific DC voltage and frequency required by an application.

Power semiconductors improve system efficiency and reliability by processing and converting electrical energy into more usable, higher quality power. Specifically, our power semiconductors are used primarily in controlling energy in power conversion systems, including switch-mode power supplies and uninterruptible power supplies, and in motor drive controls. Switch-mode power supplies efficiently convert power to meet the specific voltage requirements of an application, such as communications equipment. Uninterruptible power supplies provide a short-term backup of electricity in the event of power failure. Motor drive controls regulate the voltage, current and frequency of power to a motor.

Our microcontrollers are used to control electronic devices such as remote controllers, motors and user interfaces on appliances. With the growth in telecommunications, data communications and wireless

communications, the demand for analog and mixed-signal ICs has grown. Our mixed-signal ICs address the interface between telecommunication and data communication components, both in the central office and in gateway applications, especially with the increased use of the internet protocol, or IP. Our RF power semiconductors are used in wireless infrastructure and in other microwave communication applications. Technical advancement in the communication industries is expected, in part, to drive the demand for higher performance semiconductors.

Power Semiconductors

Our power semiconductor products have historically been divided into two primary categories: power MOS transistors and bipolar products. Our power semiconductors are sold separately and are also packaged in high power modules that frequently consist of multiple semiconductor dice. In fiscal 2017, power semiconductors constituted approximately 68.8% of our revenues, which included about 32.5% of revenues from power MOS transistors and related products, and about 36.3% of revenues from bipolar products. In fiscal year ended March 31, 2016, or fiscal 2016, power semiconductors constituted approximately 67.3% of our revenues, which included about 30.9% of revenues from power MOS transistors and about 36.4% of revenues from bipolar products. In fiscal year ended March 31, 2015, or fiscal 2015, power semiconductors constituted approximately 64.8% of our revenues, which included about 26.1% of revenues from power MOS transistors and about 37.0% of revenues from bipolar products.

Power MOS Transistors

Power MOS transistors operate at much greater switching speeds than bipolar transistors, allowing the design of smaller and less costly end products. Power MOS transistors are activated by voltage rather than current, so they require less external circuitry to operate, making them more compatible with IC controls. Power MOS transistors also offer more reliable long term performance and are more rugged than traditional bipolar transistors, permitting them to better withstand adverse operating conditions. Our power MOS transistors consist of power MOSFETs and IGBTs.

- ***Power MOSFETs.*** A power MOSFET, or metal-oxide-silicon field-effect transistor, is a switch controlled by voltage at the gate. Power MOSFETs are used in combination with passive components to vary the amperage and frequency of electricity by switching on and off at high frequency. With voltage ratings ranging from 36 to 4,700 volts, our power MOSFETs are used primarily in power conversion systems and are focused on higher voltage applications.
- ***IGBTs.*** IGBTs, or insulated-gate bipolar transistors, also are used as switches. IGBTs have achieved many of the advantages of power MOSFETs and of traditional bipolar technology by combining the voltage-controlled switching features of power MOSFETs with the superior conductivity and energy efficiency of bipolar transistors. For a given semiconductor die size, IGBTs can operate at higher currents and voltages, making them more cost-effective devices for high energy applications than power MOSFETs. Since our inception, we have developed IGBTs for high voltage applications. Our IGBTs, rated from 300 volts to 4,500 volts, are used principally in AC motor drives, power systems and defibrillators.

Bipolar Products

Bipolar products are also used to process electricity, but are activated by current rather than voltage. Bipolar products are capable of switching electricity at substantially higher power levels than power MOS transistors. However, switching speeds of bipolar products are slower than those of power MOS transistors and, as a result, bipolar products are preferred where very high power is required. Our bipolar products consist of rectifiers and thyristors.

- ***Rectifiers.*** Rectifiers convert AC power to DC power and are used primarily in input and output rectification and inverters. Our rectifiers are used in DC and AC motor drives, power supplies, lighting and heating controls and welding equipment. A subset of our rectifier product group is a very fast switching device known as a FRED, or fast recovery epitaxial diode. FREDs limit spikes in voltage across the power switch to reduce power dissipation and electromagnetic interference. Our FREDs are used principally in AC motor drives and power supplies.

- *Thyristors.* Thyristors are switches that can be turned on by a controlled signal and turned off only when the output current is reduced to zero, which occurs in the flow of AC power. Thyristors are preferred over power MOSFETs and IGBTs in high voltage, low frequency AC applications because their on-state resistance is lower than the on-state resistance of power MOSFETs and IGBTs. Our thyristors are used in motor drives, defibrillators, power supplies, lighting and heating controls.

Integrated Circuits

Our integrated circuits address the demand for analog, mixed-signal and digital interface solutions in communication and other industries and include microcontrollers, mixed-signal ASICs, as designed for specific customers and as standard products, and power management and control ICs. ICs accounted for 25.4% of our revenues in fiscal 2017, 26.5% of our revenues in fiscal 2016 and 28.2% of our revenues in fiscal 2015.

Microcontrollers

A microcontroller is a computer-on-a-chip that is optimized to control electronic devices, such as motors and user interfaces on appliances. A microcontroller typically includes a central processing unit, non-volatile program memory, random access memory for data storage and various peripheral capabilities. The microcontroller includes application-specific software provided by customers and may include specialized peripheral device controllers and internal or external non-volatile memory components to enable the storage and access of additional program software. Our ZigBee® wireless microcontrollers offer system-on-a-chip, or SoC, solutions useful for home automation, smart energy and remote sensors. These ZigBee® wireless microcontrollers were acquired through the acquisition of RadioPulse, Inc., or RadioPulse, in May 2015.

Microcontroller devices have been incorporated into a wide variety of products in markets including consumer electronics, home appliances and security systems. Microcontrollers are generally segmented by word length, which is measured in bits ranging from 4-bit through 32-bit architectures. Our microcontroller product lines are focused on 8-bit microcontrollers. While traditional 16-bit and 32-bit architectures typically have higher performance, they can be too expensive for many high volume embedded control applications. Manufacturers will choose the appropriate microcontrollers based on cost, performance and functionality requirements.

Solid-State Relays

We manufacture solid-state relays, or SSRs, that isolate the low current communication signal from the higher power circuit, while also switching to control the flow of current. Our SSRs, which include high voltage analog components, optocouplers and integrated packages, are utilized principally in telecommunication and video and data communication applications, as well as instrumentation, industrial control and aerospace and automotive applications.

Application-Specific Integrated Circuits

We design high voltage, analog and mixed-signal ASICs for a variety of applications. Applying our technological expertise in ASICs, we also design and sell application-specific standard products. In this regard, we have developed a line of source and gate drivers.

Power Management and Control ICs

We also make and sell power management and control ICs, such as current regulators, motion controllers, digital power modulators and drivers for power MOSFETs and IGBTs. These ICs typically manage, control or regulate power semiconductors and the circuits and subassemblies that incorporate them.

RF Power Semiconductors

Our RF power devices switch electricity at the high rates necessary to enable the amplification or reception of radio frequencies. Our products include field-effect transistors, or FETs, pseudomorphic-high-electron-mobility transistors, or PHEMTs, Gunn diodes and monolithic microwave integrated circuits, or MMICs. These products are principally gallium arsenide devices, which remain efficient at the high heat and energy levels inherent in RF applications.

Systems and Other Products

We manufacture and sell laser diode drivers, high voltage pulse generators and modulators. We also manufacture and sell high power subsystems, sometimes known as modules or stacks, that are principally based on our high power semiconductor devices.

Products and Applications

Our power semiconductors are used primarily to control electricity in power conversion systems, motor drives and medical electronics. Our ICs are used to interface with telecommunication lines, control power semiconductors and drive medical equipment and displays, as well as offer our customers the ability to integrate peripheral functions such as network connectivity, timers, serial communication, analog-to-digital conversion and display drivers on our micrologic devices. Our RF power semiconductors enable the amplification and reception of radio frequencies in telecommunication, industrial, defense and space applications. The following table summarizes the primary categories of uses for our products, some products used within the categories and some of the applications served within the categories:

<u>Category</u>	<u>Our Products</u>	<u>End User Applications</u>
Power Conversion Systems	FRED IGBT MOSFET Thyristor Rectifier IC gate driver Embedded flash microcontroller Microcontroller	SMPS and UPS for: Wireless base stations Internet facilities Storage area networks RF generators Renewable energy systems Low-power controllers Industrial controllers Battery chargers
Motor Drives	FRED IGBT MOSFET Thyristor IC gate driver Solid state relay Microcontroller	Automation Robotics Process control equipment Machine tools Electric trains Fans
Medical Electronics	IGBT MOSFET Thyristor RFID IC GaAs FET ZigBee® wireless microcontroller	Defibrillators Medical imaging devices Laser power supplies Medical power supplies Ultrasound Patient monitoring
Telecommunications	SSR MOSFET GaAs FET Microcontroller Serial communication controller	Point-of-sale terminals Modems Set top boxes Wireless base stations Central office Security systems Telephone switches/PBX
Consumer Products	Display driver IC RFID transponder Microcontroller Embedded flash microcontroller ZigBee® wireless microcontroller	Remote controllers Appliances Displays Internet of Things

We also sell our power semiconductor dice to other power semiconductor companies for use in their modules.

Sales and Marketing

We sell our products through a worldwide selling organization that includes direct sales personnel, independent representatives and distributors. As of March 31, 2017, we employed 77 people in sales, marketing and customer support and used 33 sales representative organizations and 15 distributors in the Americas and 152 sales representative organizations and distributors in the rest of the world. Sales to distributors accounted for approximately 58.7% of net revenues in fiscal 2017, 56.7% of net revenues in fiscal 2016 and 55.6% of net revenues in fiscal 2015. One distributor, Allied Group (Hong Kong), accounted for 12.3%, 12.2% and 10.2% of net revenues in fiscal 2017, 2016 and 2015, respectively. Another distributor, Future Electronics, accounted for 10.8% and 10.5% of net revenues in fiscal 2017 and 2015, respectively.

In fiscal 2017, United States sales represented approximately 25.3%, and international sales represented approximately 74.7%, of our net revenues. Of our international sales in fiscal 2017, approximately 39.0% were derived from sales in Europe and the Middle East, approximately 57.5% were derived from sales in the Asia Pacific region and approximately 3.5% were derived from sales in India and the rest of the world. For financial information about geographic areas for each of our last three fiscal years, see Note 15, "Segment and Geographic Information" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K, which information is incorporated by reference into this Item 1. For a discussion of the risks attendant to our foreign operations, see Item 1A, "Risk Factors-Our international operations expose us to material risks," which information is incorporated by reference into this Item 1.

We market our products through advertisements, technical articles and press releases that appear regularly in a variety of trade publications, as well as through the dissemination of brochures, data sheets and technical manuals. We also have a presence on the internet through a worldwide web page that enables engineers to access and download technical information and data sheets.

Research and Development

We believe that we successfully compete in our markets, in part because of our ability to design, develop and introduce new products offering technological improvements to the market on a timely basis. While the time from initiation of design to volume production of new semiconductors often takes 18 months or longer, our power semiconductors typically have a product life of several years. Our research and development expenses were approximately \$30.5 million in fiscal 2017, \$30.0 million in fiscal 2016 and \$26.7 million in fiscal 2015. As of March 31, 2017, we employed 162 people in engineering and research and development activities.

We are engaged in ongoing research and development efforts focused on enhancements to existing products and the development of new products. Currently, we are pursuing research and development projects with respect to the following:

- developing new power semiconductors and ICs for the Internet of Things, or IoTs, electric vehicles, or EVs, and medical applications;
- increasing the operating range of our MOS and bipolar power semiconductor products;
- increasing the operating range of our power diodes and rectifier products;
- developing new gallium arsenide and gallium nitride amplifiers and MMICs;
- developing new high voltage LED drivers and drivers for power MOSFETs, IGBTs and silicon carbide FETs;
- developing higher power IGBT, thyristor and rectifier modules;
- developing hybrids and modules with silicon carbide devices;
- developing telecommunication and power solid-state relays;
- developing high voltage integrated circuits, or HVICs, and optically isolated drivers for power management;
- developing high current MOSFETs and IGBTs for power supplies, generators, inverters, automotive, EV and portable equipment markets;

- developing silicon carbide devices for high power applications;
- developing high power module products for automotive applications, chargers and EV;
- developing high power module products for electric trains, solar inverters and wind power generators;
- developing stacks and subsystems for electric trains and renewable energy markets;
- developing ICs for telecommunications, VOIP, security and flexible displays;
- developing solar-powered battery charging devices, products and circuits;
- developing 8-bit, 16-bit and 32-bit embedded flash-based microcontrollers;
- developing ICs for radio frequency identification, or RFID, tags and RFID tags evaluation boards;
- developing SoCs with embedded microcontrollers, or MCUs, and ZigBee®, Bluetooth and wi-fi wireless connectivity for IoT applications;
- developing software tools for our 8-bit and 32-bit MCUs;
- developing pulse drivers for lasers, medical and laboratory systems; and
- developing application-specific modules for defibrillators.

Research and development activities are conducted in collaboration with manufacturing activities to help expedite new products from the development phase to manufacturing and to more quickly implement new process technologies. From time to time, our research and development efforts have included participation in technology collaborations with universities and research institutions.

Patents and Other Intellectual Property Rights

As of March 31, 2017, we held 462 issued patents, of which 314 were issued in the U.S. and 148 were issued in international jurisdictions. We rely on a combination of patent rights, copyrights and trade secrets to protect the proprietary elements of our products. Our policy is to file patent applications to protect technology, inventions and improvements that are important to our business. We also seek to protect our trade secrets and proprietary technology, in part through confidentiality agreements with employees, consultants and other parties. While we believe that our intellectual property rights are valuable, we also believe that other factors, such as innovative skills, technical expertise, the ability to adapt quickly to evolving customer requirements and new technologies, product support and customer relations, are of greater competitive significance.

Manufacturing and Facilities

The production of our products is a highly complex and precise process. We manufacture our products in our own manufacturing facilities, utilize external wafer foundries and subcontract assembly facilities. We divide our manufacturing operations into three key areas: wafer fabrication, assembly and test.

Wafer Fabrication

The first step in our manufacturing process for our power semiconductors is the deposition of a layer of epitaxy on the substrates we purchase from third parties. This deposition occurs at external facilities and at our facility in Santa Clara, California. The substrates are then sent for fabrication.

We have four facilities which perform fabrication: in Lampertheim, Germany, we fabricate bipolar products; in Beverly, Massachusetts, we manufacture HVICs; in Fremont, California, we manufacture gallium arsenide RF power semiconductors; and in Chippenham, England, we fabricate very high power bipolar devices. We believe that our internal fabrication capabilities enable us to more quickly bring products to the market, retain certain proprietary aspects of our process technology and develop new innovations.

In addition to maintaining our own fabrication facilities, we have established alliances with selected foundries for wafer fabrication. This approach allows us to reduce substantial capital spending and manufacturing overhead expenses, obtain competitive pricing and technologies and expand manufacturing capacity more rapidly than could be achieved with internal foundries alone. In some cases, we retain the

flexibility to shift the production of our products to different or additional foundries for cost or performance reasons. Our product designs enable the production of our devices at multiple foundries using well-established and cost-effective processes.

Measured in dollars, we relied on external foundries for approximately 47.4% of our wafer fabrication requirements in fiscal 2017. We have arrangements with a number of external wafer foundries, both for power semiconductors and ICs. Commonly, we provide our foundries forecasts for wafer fabrication six months in advance and make firm purchase commitments one to two months in advance of delivery.

Wafer fabrication of power semiconductors generally employs process technology and equipment already proven in IC manufacturing. Power semiconductors are manufactured using fabrication equipment that is one or more generations behind the equipment used to fabricate leading-edge ICs. Used fabrication equipment can be obtained at prices substantially less than the original cost of such equipment or the cost of current equipment applying the latest technology. Consequently, the fabrication of power semiconductors is less capital intensive than the fabrication of leading-edge ICs.

For a discussion of risks attendant to our use of external foundries, see “Risk Factors-We depend on external foundries to manufacture many of our products,” provided in Item 1A of this Annual Report on Form 10-K, which information is incorporated by reference into this Item 1. For a discussion of risks attendant to our acquisition of substrates prior to wafer fabrication, see “Risk Factors-We depend upon a limited number of suppliers for our substrates, most of whom we do not have long term agreements with,” provided in Item 1A of this Annual Report on Form 10-K, which information is incorporated by reference into this Item 1. For a discussion of environmental risks attendant to our business, see “Risk Factors-We may be affected by environmental laws and regulations,” provided in Item 1A of this Annual Report on Form 10-K, which information is incorporated by reference into this Item 1.

Assembly

Packaging, or assembly, refers to the sequence of production steps that divide the wafer into individual die and enclose the dice in external structures, called packages, which make them useable in a circuit. Manufacturing typically involves the assembly and packaging of single semiconductor, or die, devices. Module manufacturing involves the assembly of multiple devices within a single package. SSR products involve multiple die assembly on a specialized lead frame. The resulting packages vary in configuration, but all have leads that are used to mount the package through holes in the customer’s printed circuit boards.

Most of our wafers are sent to subcontract assembly facilities. We use assembly subcontractors located in Asia and Europe in order to take advantage of low assembly costs. Measured in dollars, approximately 65.6% of our products were, during fiscal 2017, assembled at external assembly facilities, and the rest were assembled in our Lampertheim, Chippenham and Fremont facilities.

Test

Generally, each die on our wafers is electrically tested for performance after wafer fabrication. Following assembly, our products undergo testing and final inspection, either internally or externally, prior to shipment to customers. Our test operations are performed by subcontractors located throughout Asia and at our facilities in the United States and Europe.

Competition

The semiconductor industry is intensely competitive and is characterized by price competition, technological change, limited fabrication capacity, international competition and manufacturing yield problems. The competitive factors in the market for our products include:

- price;
- product quality, reliability and performance;
- product features;
- timely delivery of products;

- proper new product definition;
- breadth of product line;
- design and introduction of new products;
- market acceptance of our products and those of our customers;
- support tools;
- familiarity with micrologic architecture;
- existing customer investment in system software based on a particular architecture; and
- technical support and service.

Regarding these factors, we view our competitive advantage as an ability to respond quickly to customer requests for new product development. On the other hand, we rarely consider our company to be among the most aggressive in pricing. We believe that we are one of a limited group of companies focused on the development and marketing of high power, high performance semiconductors capable of performing all of the basic functions of power semiconductor design and manufacture. Our primary power semiconductor competitors include Fuji, Hitachi, Infineon, Microsemi, Mitsubishi, On Semiconductor, Powerex, Renesas Electronics, Semikron International, STMicroelectronics, Toshiba and Vishay Intertechnology. Our IC products compete principally with those of Cypress Semiconductor, NXP Semiconductors, Microchip Technology, NEC, Renesas Electronics and Silicon Labs. Our RF power semiconductor competitors include Microsemi and Qorvo.

Backlog

Backlog is influenced by several factors including market demand, pricing and customer order patterns in reaction to product lead times. In the semiconductor industry, backlog quantities and shipment schedules under outstanding purchase orders are frequently revised to reflect changes in customer needs. Purchase orders or agreements calling for the sale of specific quantities are either contractually subject to quantity revisions or, as a matter of industry practice, often not enforced. Therefore, a significant portion of our order backlog may be cancelable. For these reasons, the amount of backlog as of any particular date may not be an accurate indicator of future results. At March 31, 2017, our backlog of orders was approximately \$98.9 million as compared to \$87.7 million at March 31, 2016. Backlog represents existing customer orders that, by their terms, are expected to be shipped within the 12 months following March 31, 2017.

Our trade sales are made primarily pursuant to standard purchase orders that are booked months in advance of delivery. Generally, prices and quantities are fixed at the time of booking.

We sell products to key customers pursuant to contracts that allow us to schedule production capacity in advance and allow the customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered product. However, these contracts are typically amended to reflect changes in customer demand and periodic price renegotiations.

Employees

At March 31, 2017, we employed 1,003 employees, of whom 162 were primarily engaged in engineering and research and development activities, 77 in marketing, sales and customer support, 680 in manufacturing and 84 in finance and administration. Of these employees, 230 hold engineering or science degrees, including 33 Ph.D.s. Certain employees at our Lampertheim and Chippenham facilities are subject to collective bargaining agreements. There have been no work stoppages at any of our facilities to date. We believe that our employee relations are good.

Seasonality

Over the years, we have experienced a pattern, although not consistently, in our September and December quarters of reduced revenues or reduced growth in revenues from quarter to sequential quarter because of summer vacation and year-end holiday schedules in our and our customers' facilities, particularly in our European operations.

Available Information

We currently make available, through our website at <http://www.ixys.com>, free of charge, copies of our Annual Report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after submitting the information to the Securities and Exchange Commission, or SEC. None of the information posted on or accessible through our website is incorporated by reference into this Annual Report on Form 10-K by virtue thereof. You can also request free copies of such documents by contacting us at (408) 457-9000 or by sending an e-mail to investorrelations@ixys.net.

Item 1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating our business and us. Additional risks not presently known to us or that we currently believe are not serious may also impair our business and its financial condition.

Our operating results fluctuate significantly because of a number of factors, many of which are beyond our control.

Given the nature of the markets in which we participate, as well as macroeconomic uncertainties, we cannot reliably predict future revenues and profitability and unexpected changes may cause us to adjust our operations. Large portions of our costs are fixed, due in part to our significant sales, research and development and manufacturing costs. Thus, small declines in revenues could seriously negatively affect our operating results in any given quarter. Our operating results may fluctuate significantly from quarter-to-quarter and year-to-year. For example, from fiscal 2008 to fiscal 2009, net income in one year shifted to net loss in the next year. Some of the factors that may affect our quarterly and annual results are:

- changes in business and economic conditions, including a downturn in demand or decrease in the rate of growth in demand, whether in the global economy, a regional economy or the semiconductor industry;
- changes in market conditions, potentially including changes in the credit markets, currency exchange rates, expectations for inflation or energy prices;
- the reduction, rescheduling or cancellation of orders by customers;
- fluctuations in timing and amount of customer requests for product shipments;
- changes in the mix of products that our customers purchase;
- changes in the level of customers' component inventories;
- loss of key customers or employees;
- the availability of production capacity, whether internally or from external suppliers;
- the cyclical nature of the semiconductor industry;
- competitive pressures on selling prices;
- strategic actions taken by our competitors;
- market acceptance of our products and the products of our customers;
- fluctuations in our manufacturing yields and significant yield losses;
- difficulties in forecasting demand for our products and the planning and managing of inventory levels;
- the availability of raw materials, supplies and manufacturing services from third parties;
- the amount and timing of investments in research and development;
- damage awards or injunctions as the result of litigation;
- changes in our product distribution channels and the timeliness of receipt of distributor resale information;

- the impact of vacation schedules and holidays, largely during the second and third quarters of our fiscal year; and
- the amount and timing of costs associated with product returns.

As a result of these factors, many of which are difficult to control or predict, as well as the other risk factors discussed in this Annual Report on Form 10-K, we may experience materially adverse fluctuations in our future operating results on a quarterly or annual basis. Changes in demand for our products and in our customers' product needs could have a variety of negative effects on our competitive position and our financial results, and, in certain cases, may reduce our revenues, increase our costs, lower our gross margin percentage or require us to recognize impairments of our assets. If product demand declines, our manufacturing or assembly and test capacity could be underutilized and we may be required to record an impairment on our long-lived assets, including facilities and equipment as well as intangible assets and goodwill, which would increase our expenses. Factory planning decisions may also shorten the useful lives of long-lived assets, including facilities and equipment, and cause us to accelerate depreciation. In addition, if product demand declines or we fail to forecast demand accurately, we could be required to write off inventory or record underutilization charges, which would have a negative impact on our gross margin.

Our backlog may not result in future revenues.

Customer orders typically can be cancelled or rescheduled by the customer without penalty to the customer. Cancellations or reschedulings are common in periods of decreasing demand. Further, in periods of increasing demand, particularly when production is allocated or delivery delayed, customers of semiconductor companies have on occasion placed orders without expectation of accepting delivery to increase their share of allocated product or in an effort to improve the timeliness of delivery. While we are attuned to the potential for such behavior and attempt to identify such orders, we could accept orders of this nature and subsequently experience order cancellation unexpectedly.

Our backlog at any particular date is not necessarily indicative of actual revenues for any succeeding period. A reduction of backlog during any particular period, or the failure of our backlog to result in future revenues, could harm our results of operations.

Fluctuations in the mix of products sold may adversely affect our financial results.

Changes in the mix and types of products sold may have a substantial impact on our revenues and gross profit margins. In addition, more recently introduced products tend to have higher associated costs because of initial overall development costs and higher start-up costs. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover our fixed costs and investments that are associated with a particular product or wafer foundry, and, as a result, can negatively impact our financial results.

Our international operations expose us to material risks.

For the fiscal year ended March 31, 2017, our net revenues by region were approximately 25.3% in the United States, approximately 29.1% in Europe and the Middle East, approximately 42.9% in the Asia Pacific region and approximately 2.7% in India and the rest of the world. We expect net revenues from foreign markets to continue to represent a majority of total net revenues. We maintain significant business operations in Germany, the United Kingdom, or UK, the Philippines and South Korea and work with subcontractors, suppliers and manufacturers in South Korea, Japan, the Philippines and elsewhere in Europe and the Asia Pacific region. Some of the risks inherent in doing business internationally are:

- foreign currency fluctuations, particularly in the Euro and the British pound;
- longer payment cycles;
- challenges in collecting accounts receivable;
- changes in the laws, regulations or policies of the countries in which we manufacture or sell our products, including the present or future impact of the departure of the UK from the European Union;

- trade restrictions, tariffs, customs, sanctions, embargoes and other barriers to importing/exporting materials and products in a cost effective and timely manner, or changes in applicable tariffs or custom rules;
- cultural and language differences;
- employment regulations;
- limited infrastructure in emerging markets;
- transportation delays;
- seasonal reduction in business activities;
- work stoppages;
- labor and union disputes;
- electrical outages;
- terrorist attack or war; and
- economic or political instability.

Our sales of products manufactured in our Lampertheim, Germany facility and our costs at that facility are primarily denominated in Euros, and sales of products manufactured in our Chippenham, UK facility and our costs at that facility are primarily denominated in British pounds. Fluctuations in the value of the Euro and the British pound against the U.S. dollar could have a significant adverse impact on our balance sheet and results of operations. “Brexit,” the expected exit by the UK from the European Union, has, and in the future may, affect the value of the British pound and the Euro relative to one another and to the U.S. dollar. We generally do not enter into foreign currency hedging transactions to control or minimize currency fluctuation risks. Reductions in the value of the Euro or British pound would reduce our revenues recognized in U.S. dollars, all other things being equal. Changes in the value of the Euro or the British pound could cause or increase losses associated with foreign currency transactions. Fluctuations in currency exchange rates could cause our products to become more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. Alternatively, fluctuations in currency exchange rates in the face of competitive pricing pressures could lead to lower gross profit margins, as customer prices in one currency fall relative to costs of production experienced in a different currency. If we expand our international operations or change our pricing practices to denominate prices in other foreign currencies, we could be exposed to even greater risks of currency fluctuations.

Our financial performance is dependent on economic stability and credit availability in international markets. Actions by governments to address deficits or sovereign or bank debt issues, particularly in Europe, could adversely affect gross domestic product or currency exchange rates in countries where we operate, which in turn could adversely affect our financial results. If our customers or suppliers are unable to obtain the credit necessary to fund their operations, we could experience increased bad debts, reduced product orders and interruptions in supplier deliveries leading to delays or stoppages in our production. Alternatively, governmental actions in China or other emerging markets to address economic problems, such as inflation, asset or other “bubbles” or the transfer of capital out of the country, could also adversely affect gross domestic product or the growth thereof and result in reduced product orders or increased bad debt expense for us. Brexit may result in additional tariffs on our products manufactured in the UK and sold elsewhere, resulting in competitive pricing pressures that may adversely affect our results of operations.

In addition, the laws and courts of certain foreign countries may not protect our products or intellectual property rights to the same extent as do U.S. laws and courts. Therefore, the risk of piracy of our technology and products may be greater when we manufacture or sell our products in certain foreign countries.

Our dependence on subcontractors to assemble and test our products subjects us to a number of risks, including an inadequate supply of products and higher materials costs.

We depend on subcontractors for the assembly and testing of our products. The substantial majority of our products are assembled by subcontractors located outside of the United States. Assembly subcontractors

generally work on narrow margins and have limited capital. We have encountered assembly subcontractors who have ceased or reduced production because of financial problems. We engage assembly subcontractors who operate while in insolvency proceedings or whose financial stability is uncertain. The unexpected cessation of production or reduction in production by one or more of our assembly subcontractors could adversely affect our production, our customer relations, our revenues and our financial condition. Our reliance on these subcontractors also involves the following significant risks:

- reduced control over delivery schedules and quality;
- the potential lack of adequate capacity during periods of excess demand;
- difficulties selecting and integrating new subcontractors;
- limited or no warranties by subcontractors or other vendors on products supplied to us;
- potential increases in prices due to capacity shortages and other factors;
- potential misappropriation of our intellectual property; and
- economic or political instability in foreign countries.

These risks may lead to delayed product delivery or increased costs, which would harm our profitability and customer relationships.

Further, we use only a limited number of subcontractors to assemble most of our products. If one or more of these key subcontractors experience financial, operational, production or quality assurance difficulties, we could experience a significant reduction or interruption in supply. Although we believe alternative subcontractors are available, our operating results could temporarily suffer until we engage one or more of those alternative subcontractors. Moreover, in engaging alternative subcontractors in exigent circumstances, our production costs could increase markedly.

We depend on external foundries to manufacture many of our products.

Of our net revenues for our fiscal year ended March 31, 2017, 47.4% came from wafers manufactured for us by a number of external foundries. In particular, the wafers for all of our microcontrollers are fabricated at external foundries. Our dependence on external foundries may grow.

Our relationships with our external foundries do not guarantee prices, delivery or lead times or wafer or product quantities sufficient to satisfy current or expected demand. Generally, these foundries manufacture our products on a purchase order basis. We provide these foundries with rolling forecasts of our production requirements. However, the ability of each foundry to provide wafers to us is limited by the foundry's available capacity. At any given time, these foundries could choose to prioritize capacity for their own use or other customers or reduce or eliminate deliveries to us. If growth in demand for our products occurs, our external foundries may be unable or unwilling to allocate additional capacity to our needs, thereby limiting our revenue growth. Accordingly, we cannot be certain that these foundries will allocate sufficient capacity to satisfy our requirements. In addition, we cannot be certain that we will continue to do business with these or other foundries on terms as favorable as our current terms. If we are not able to obtain foundry capacity as required, our relationships with our customers could be harmed, we could be unable to fulfill contractual requirements and our revenues could be reduced or our growth limited. Moreover, even if we are able to secure foundry capacity, we may be required, either contractually or as a practical business matter, to utilize all of that capacity or incur penalties or an adverse effect to the business relationship. The costs related to maintaining foundry capacity could be expensive and could harm our operating results. Other risks associated with our reliance on external foundries include:

- the lack of control over delivery schedules;
- the unavailability of, or delays in obtaining access to, key process technologies;
- limited control over quality assurance, manufacturing yields and production costs; and
- potential misappropriation of our intellectual property.

Our requirements typically represent a small portion of the total production of the external foundries that manufacture our wafers and products. One or more of these external foundries may not continue to produce wafers for us or continue to advance the process design technologies on which the manufacturing of our products is based. If we are required to transition production from one foundry to another, we may make large last-time buys of product at the foundry that we are exiting, which could eventually result in substantial inventory write-offs if semiconductors are not sold or utilized. These circumstances could harm our ability to deliver our products or increase our costs.

Our gross margin is dependent on a number of factors, including our level of capacity utilization.

Semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation expense. We are limited in our ability to reduce fixed costs quickly in response to any shortfall in revenues. If we are unable to utilize our manufacturing, assembly and testing facilities at a high level, the fixed costs associated with these facilities will not be fully absorbed, resulting in lower gross margins. Increased competition and other factors may lead to price erosion, lower revenues and lower gross margins for us in the future.

We may not be successful in our acquisitions.

We have in the past made, and may in the future make, acquisitions of other technologies and companies. These acquisitions involve numerous risks, including:

- failure to retain key personnel of the acquired business;
- diversion of management's attention during the acquisition process;
- disruption of our ongoing business;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- unanticipated expenses and potential delays related to integration of an acquired business;
- the risk that we will be unable to develop or exploit acquired technologies;
- the engineering risks inherent in transferring products from one wafer fabrication facility to another;
- failure to successfully integrate the operations of an acquired business with our own;
- the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions;
- the risk that our markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets;
- the risks of entering new markets in which we have limited experience;
- difficulties in expanding our information technology systems or integrating disparate information technology systems to accommodate the acquired businesses;
- the challenges inherent in managing an increased number of employees and facilities and the need to implement appropriate policies, benefits and compliance programs;
- customer dissatisfaction or performance problems with an acquired company's products or personnel or with altered sales terms or a changed distribution channel;
- adverse effects on our relationships with suppliers;
- the reduction in financial stability associated with the incurrence of debt or the use of a substantial portion of our available cash;
- the costs associated with acquisitions, including amortization expenses related to intangible assets, and the integration of acquired operations;
- assumption of known or unknown liabilities or other unanticipated events or circumstances; and
- failure or fraud in pre-acquisition due diligence.

We cannot assure that we will be able to successfully acquire other businesses or product lines or integrate them into our operations without substantial expense, delay in implementation or other operational or financial problems.

As a result of an acquisition, our financial results may differ from the investment community's expectations in a given quarter. Further, if one or more of the foregoing risks materialize or market conditions or other factors lead us to change our strategic direction, we may not realize the expected value from such transactions. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, results of operations, cash flows or stock price could be negatively impacted.

Our success depends on our ability to manufacture our products efficiently.

We manufacture our products in facilities that are owned and operated by us, as well as in external wafer foundries and subcontract assembly facilities. The fabrication of semiconductors is a highly complex and precise process, and a substantial percentage of wafers could be rejected or numerous dice on each wafer could be nonfunctional as a result of, among other factors:

- contaminants in the manufacturing environment;
- defects in the masks used to print circuits on a wafer;
- manufacturing equipment failure; or
- wafer breakage.

For these and other reasons, we could experience a decrease in manufacturing yields. Additionally, if we increase our manufacturing output, the additional demands placed on existing equipment and personnel or the addition of new equipment or personnel may lead to a decrease in manufacturing yields. As a result, we may not be able to cost-effectively expand our production capacity in a timely manner.

We order materials and commence production in advance of anticipated customer demand. Therefore, revenue shortfalls may also result in inventory write-downs.

We typically plan our production and inventory levels based on our own expectations for customer demand. Actual customer demand, however, can be highly unpredictable and can fluctuate significantly. In response to anticipated long lead times to obtain inventory and materials, we order materials and production in advance of customer demand. This advance ordering and production may result in excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize.

The semiconductor industry is cyclical, and an industry downturn could adversely affect our operating results.

Business conditions in the semiconductor industry may rapidly change from periods of strong demand and insufficient production to periods of weakened demand and overcapacity. The industry in general is characterized by:

- changes in product mix in response to changes in demand;
- alternating periods of overcapacity and production shortages, including shortages of raw materials supplies and manufacturing services;
- cyclical demand for semiconductors;
- significant price erosion;
- variations in manufacturing costs and yields;
- rapid technological change and the introduction of new products; and
- significant expenditures for capital equipment and product development.

These factors could harm our business and cause our operating results to suffer.

If our goodwill, acquired intangible assets or long-lived assets become impaired, we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, goodwill is required to be tested for impairment at least annually and we review our acquired intangible assets and long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill, acquired intangible assets or long-lived assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flows and slower growth rates in our industry. From time to time, we have recorded impairment charges and written down the value of goodwill or acquired intangible assets. For example, in the quarter ended December 31, 2016, we recorded a \$1.4 million impairment charge relating to intangible assets acquired in the acquisition of RadioPulse.

Costs related to product defects and errata may harm our results of operations and business.

Costs associated with unexpected product defects and errata (deviations from published specifications) due to, for example, unanticipated problems in our manufacturing processes, include the costs of:

- writing off the value of inventory of defective products;
- disposing of defective products;
- recalling defective products that have been shipped to customers;
- providing product replacements for, or modifications to, defective products; and/or
- defending against litigation related to defective products.

These costs could be substantial and may, therefore, increase our expenses and lower our gross margin. In addition, our reputation with our customers or users of our products could be damaged as a result of such product defects and errata, and the demand for our products could be reduced. These factors could harm our financial results and the prospects for our business.

Semiconductors for inclusion in consumer products have shorter product life cycles.

We believe that consumer products are subject to shorter product life cycles, because of technological change, consumer preferences, trendiness and other factors, than other types of products sold by our customers. Shorter product life cycles result in more frequent design competitions for the inclusion of semiconductors in next generation consumer products, which may not result in design wins for us. Shorter product life cycles may lead to more frequent circumstances where sales of existing products are reduced or ended.

Uncertain global macroeconomic conditions could adversely affect our results of operations and financial condition.

Uncertain global macroeconomic conditions that affect the economy and the economic outlook of the United States, Europe, China and other parts of the world could adversely affect our customers and vendors, which could adversely affect our results of operations and financial condition. These uncertainties, including, among other things, the impact of “Brexit” on the UK and the European Union, sovereign and foreign bank debt levels, the inability of national or international political institutions to effectively resolve economic or budgetary crises or issues, trade disputes or changes in trading rules and tariffs between nations, consumer confidence, unemployment levels, interest rates, availability of capital, fuel and energy costs, tax rates, and the threat or outbreak of terrorism or public unrest, could adversely impact our customers and vendors, which could adversely affect us. Recessionary conditions and depressed levels of consumer and commercial spending may cause customers to reduce, modify, delay or cancel plans to purchase our products and may cause vendors to reduce their output or change their terms of sales. We generally sell products to customers with credit payment terms. If customers’ cash flow or operating or financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment to us. Likewise, for similar reasons vendors may restrict credit or impose different payment terms. Any inability of current or potential customers to pay us for our products or any demands by vendors for different payment terms may adversely affect our results of operations and financial condition.

Economic conditions and regulatory changes leading up to and following the United Kingdom's expected exit from the European Union could have a material adverse effect on our business and results of operations.

The UK government has initiated a process to leave the European Union and to negotiate the terms of the UK's future relationship with the European Union. We face uncertainty regarding the impact of the expected exit of the UK from the European Union. Adverse consequences such as deterioration in global economic conditions, stability in global financial markets, volatility in currency exchange rates, new or increased tariffs or adverse changes in regulation of the cross-border agreements could have a negative impact on our operations, financial condition and results of operations.

Our debt agreements contain certain restrictions that may limit our ability to operate our business.

The agreements governing our debt contain, and any other future debt agreement we enter into may contain, restrictive covenants that limit our ability to operate our business, including, in each case subject to certain exceptions, restrictions on our ability to:

- incur additional indebtedness;
- grant liens;
- consolidate, merge or sell our assets, unless specified conditions are met;
- acquire other business organizations;
- make investments;
- redeem or repurchase our stock; and
- change the nature of our business.

In addition, our debt agreements contain financial covenants and additional affirmative and negative covenants. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. If we are not able to comply with all of these covenants for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under the credit facilities provided by the debt agreements would not be allowed. If our cash is utilized to repay any outstanding debt, depending on the amount of debt outstanding, we could experience an immediate and significant reduction in working capital available to operate our business. Related to these risks, our lenders waived a default under our existing Revolving Credit Agreement caused by the leverage ratio, which compared total funded indebtedness as of March 31, 2016 to EBITDA for the four fiscal quarters ended March 31, 2016. The leverage ratio minimally exceeded the contractually agreed ratio that was effective at the time. As of March 31, 2017, we complied with all of the financial covenants.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us, such as strategic acquisitions or joint ventures.

If we default on our Revolving Credit Agreement, most of our assets may become subject to security interests, which could lead to our lenders taking possession, selling or otherwise disposing of such assets, or to bankruptcy to forestall such actions.

We estimate tax liabilities, the final determination of which is subject to review by domestic and international taxation authorities.

We are subject to income taxes and other taxes in both the United States and foreign jurisdictions in which we currently operate or have historically operated. We are also subject to review and audit by both domestic and foreign taxation authorities. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires significant judgment and estimation. The provision for income taxes can be adversely affected by a variety of factors, including but not limited to changes in tax laws, regulations and accounting principles, including accounting for uncertain tax positions, or interpretation of those changes.

Significant judgment is required to determine the recognition and measurement attributes prescribed in the authoritative guidance issued by Financial Accounting Standards Board, or FASB, in connection with accounting for income taxes. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, goodwill or cash flows in the period or periods for which such determination is made.

Our intellectual property revenues are uncertain and unpredictable in timing and amount.

We are unable to discern a pattern in or otherwise predict the amount of any payments for the sale or licensing of intellectual property that we may receive. Consequently, we are unable to plan on the timing of intellectual property revenues and our results of operations may be adversely affected by a reduction in future estimated intellectual property revenues.

Our markets are subject to technological change and our success depends on our ability to develop and introduce new products.

The markets for our products are characterized by:

- changing technologies;
- changing customer needs;
- frequent new product introductions and enhancements;
- increased integration with other functions; and
- product obsolescence.

To develop new products for our target markets, we must develop, gain access to and use leading technologies in a cost-effective and timely manner and continue to expand our technical and design expertise. Failure to do so could cause us to lose our competitive position and seriously impact our future revenues.

Products or technologies developed by others may render our products or technologies obsolete or non-competitive. A fundamental shift in technologies in our product markets would have a material adverse effect on our competitive position within the industry.

Our revenues are dependent upon our products being designed into our customers' products.

Many of our products are incorporated into customers' products or systems at the design stage. The value of any design win largely depends upon the customer's decision to manufacture the designed product in production quantities, the commercial success of the customer's product and the extent to which the design of the customer's electronic system also accommodates incorporation of components manufactured by our competitors. In addition, our customers could subsequently redesign their products or systems so that they no longer require our products. The development of the next generation of products by our customers generally results in new design competitions for semiconductors, which may not result in design wins for us, potentially leading to reduced revenues and profitability. We may not achieve design wins or our design wins may not result in future revenues.

We could be harmed by intellectual property litigation.

As a general matter, the semiconductor industry is characterized by substantial litigation regarding patent and other intellectual property rights. We have been sued for purported patent infringement and have been accused of infringing the intellectual property rights of third parties. We also have certain indemnification obligations to customers and suppliers with respect to the infringement of third party intellectual property rights by our products. We could incur substantial costs defending ourselves and our customers and suppliers from any such claim. Infringement claims or claims for indemnification, whether or not proven to be true, may divert the efforts and attention of our management and technical personnel from our core business operations and could otherwise harm our business. For example, in June 2000, we were sued for patent infringement by International Rectifier Corporation. The case was ultimately resolved in our favor, but not until October 2008. In the interim, the U.S. District Court entered multimillion dollar judgments against us on two different occasions, each of which was subsequently vacated.

In the event of an adverse outcome in any intellectual property litigation, we could be required to pay substantial damages, cease the development, manufacturing, use and sale of infringing products, discontinue the use of certain processes or obtain a license from the third party claiming infringement with royalty payment obligations upon us. An adverse outcome in an infringement action could materially and adversely affect our financial condition, results of operations and cash flows.

We may not be able to protect our intellectual property rights adequately.

Our ability to compete is affected by our ability to protect our intellectual property rights. We rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and non-disclosure and licensing arrangements to protect our intellectual property rights. Despite these efforts, we cannot be certain that the steps we take to protect our proprietary information will be adequate to prevent misappropriation of our technology, or that our competitors will not independently develop technology that is substantially similar or superior to our technology. More specifically, we cannot assure that our pending patent applications or any future applications will be approved, or that any issued patents will provide us with competitive advantages or will not be challenged by third parties. Nor can we assure that, if challenged, our patents will be found to be valid or enforceable, or that the patents of others will not have an adverse effect on our ability to do business. We may also become subject to or initiate patentability or interference proceedings in the U.S. Patent and Trademark Office, which can demand significant financial and management resources and could harm our financial results. Also, others may independently develop similar products or processes, duplicate our products or processes or design their products around any patents that may be issued to us.

Because our products typically have lengthy sales cycles, we may experience substantial delays between incurring expenses related to research and development and the generation of revenues.

The time from initiation of design to volume production of new semiconductors often takes 18 months or longer. We first work with customers to achieve a design win, which may take nine months or longer. Our customers then complete the design, testing and evaluation process and begin to ramp up production, a period that may last an additional nine months or longer. As a result, a significant period of time may elapse between our research and development efforts and our realization of revenues, if any, from volume purchasing of our products by our customers.

The markets in which we participate are intensely competitive.

Many of our target markets are intensely competitive. Our ability to compete successfully in our target markets depends on the following factors:

- proper new product definition;
- product quality, reliability and performance;
- product features;
- price;
- timely delivery of products;
- technical support and service;
- design and introduction of new products;
- market acceptance of our products and those of our customers; and
- breadth of product line.

In addition, our competitors or customers may offer new products based on new technologies, industry standards, end-user or customer requirements, including products that have the potential to replace our products or provide lower cost or higher performance alternatives to our products. The introduction of new products by our competitors or customers could render our existing and future products obsolete or unmarketable.

Our primary power semiconductor competitors include Fuji, Hitachi, Infineon, Microsemi, Mitsubishi, On Semiconductor, Powerex, Renesas Electronics, Semikron International, STMicroelectronics, Toshiba and Vishay

Intertechnology. Our IC products compete principally with those of Cypress Semiconductor, NXP Semiconductors, Microchip Technology, NEC, Renesas Electronics and Silicon Labs. Our RF power semiconductor competitors include Microsemi and Qorvo. Many of our competitors have greater financial, technical, marketing and management resources than we have. Some of these competitors may be able to sell their products at prices at which it would be unprofitable for us to sell our products or benefit from established customer relationships that provide them with a competitive advantage. We cannot assure that we will be able to compete successfully in the future against existing or new competitors or that our operating results will not be adversely affected by increased price competition.

We rely on our distributors and sales representatives to sell many of our products.

Most of our products are sold to distributors or through sales representatives. Our distributors and sales representatives could reduce or discontinue sales of our products. They may not devote the resources necessary to sell our products in the volumes and within the time frames that we expect. In addition, we depend upon the continued viability and financial resources of these distributors and sales representatives, some of which are small organizations with limited working capital. These distributors and sales representatives, in turn, depend substantially on general economic conditions and conditions within the semiconductor industry. We believe that our success will continue to depend upon these distributors and sales representatives. Foreign distributors are typically granted longer payment terms, resulting in higher accounts receivable balances for a given level of sales than domestic distributors. Our risk of loss from the financial insolvency of distributors is, therefore, disproportionately weighted to foreign distributors. If any significant distributor or sales representative experiences financial difficulties, or otherwise becomes unable or unwilling to promote and sell our products, our business could be harmed. For example, All American Semiconductor, Inc., one of our former distributors, filed for bankruptcy in April 2007.

Our future success depends on the continued service of management and key engineering personnel and our ability to identify, hire and retain additional personnel.

Our success depends upon our ability to attract and retain highly skilled technical, managerial, marketing and finance personnel, and, to a significant extent, upon the efforts and abilities of Nathan Zommer, Ph.D. and Uzi Sasson, our Chief Executive Officers, and other members of senior management. The loss of the services of one or more of our senior management or other key employees could adversely affect our business. We do not maintain key person life insurance on any of our officers, employees or consultants. There is intense competition for qualified employees in the semiconductor industry, particularly for highly skilled design, application and test engineers. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development of our business or to replace engineers or other qualified individuals who could leave us at any time in the future. If we grow, we expect increased demands on our resources, and growth would likely require the addition of new management and engineering staff as well as the development of additional expertise by existing management. If we lose the services of or fail to recruit key engineers or other technical and management personnel, our business could be harmed.

Acquisitions, expansion, technological and administrative changes and software conversions and updates place a significant strain on our information systems.

Presently, because of our acquisitions, we are operating a number of different information systems that are not integrated, some of which are no longer supported by software vendors. As a consequence, we use spreadsheets, which are prepared by individuals rather than automated systems, in our accounting. We perform many manual reconciliations and other manual steps, which result in a high risk of errors. Manual steps also increase the possibility of control deficiencies and material weaknesses.

If we do not adequately manage and evolve our financial reporting and managerial systems and processes, our ability to manage or grow our business may be harmed. Our ability to successfully implement our goals and comply with regulations requires an effective planning and management system and process. We will need to continue to improve existing, and implement new, operational and financial systems, procedures and controls to manage our business effectively in the future.

In improving, consolidating, changing or updating our operational and financial systems, procedures and controls, we would expect to periodically implement new or different software and other systems that will affect our internal operations regionally or globally. The conversion process from one system to another is complex and could require, among other things, that data from the existing system be made compatible with the upgraded or different system.

In connection with any of the foregoing, we could experience errors, interruptions, delays, cessations of service and other inefficiencies, which could adversely affect our business. Any error, delay, disruption, interruption or cessation, including with respect to any new or different systems, software programs, procedures or controls, could harm our ability to forecast sales demand, manage our supply chain, achieve accuracy in the conversion of electronic data and record and report financial and management information on a timely and accurate basis. In addition, as we add or change functionality, transition or convert to different systems or programs or integrate additional data in connection with an acquisition, problems could arise that we have not foreseen. Such problems could adversely impact our ability to do the following in a timely manner: provide quotes; take customer orders; ship products; provide services and support to our customers; bill and track our customers; fulfill contractual obligations; and otherwise run our business. Failure to properly or adequately address these issues could result in the diversion of management's attention and resources, adversely affect our ability to manage our business, increase expenses, or adversely affect our results of operations, cash flows, stock price or reputation.

System security risks, data protection breaches and cyber-attacks could disrupt our operations and any such disruption could reduce our expected revenues, increase our expenses, damage our reputation or adversely affect our stock price.

Computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our intellectual property or other confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store proprietary information and sensitive or confidential data relating to our business and the businesses of third parties. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers to a risk of loss or misuse of this information; result in regulatory investigations, fines, litigation and potential liability for us; damage our brand and reputation; or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

Regulations related to conflict minerals create additional compliance risks and force us to incur additional expenses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo, or DRC, and adjoining countries. As a result, the SEC established annual disclosure and reporting requirements for those companies who use "conflict" minerals mined from the DRC and adjoining countries in their products. These requirements could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, we cannot ensure that we will be able to obtain minerals at competitive prices. Moreover, there are additional costs associated with complying with the extensive due diligence and audit procedures required by the SEC. In addition, we may face reputational challenges with our customers and other stakeholders as we have in the past and may in the future be unable to sufficiently verify the

origins of all minerals used in our products. Finally, these rules bring implementation challenges. We may not successfully implement effective procedures to timely or adequately comply with these rules.

We depend on a limited number of suppliers for our substrates, most of whom we do not have long term agreements with.

We purchase the bulk of our silicon substrates from a limited number of vendors, most of whom we do not have long term supply agreements with. Any of these suppliers could reduce or terminate our supply of silicon substrates at any time. Our reliance on a limited number of suppliers involves several risks, including potential inability to obtain an adequate supply of silicon substrates and reduced control over the price, timely delivery, reliability and quality of the silicon substrates. We cannot assure that problems will not occur in the future with suppliers.

Increasing raw material prices could impact our profitability.

Our products use large amounts of silicon, metals and other materials. From time to time, we have experienced price increases for many of these items. If we are unable to pass price increases for raw materials onto our customers, our gross margins and profitability could be adversely affected.

We may not be able to increase production capacity to meet the present and future demand for our products.

The semiconductor industry has been characterized by periodic limitations on production capacity. These limitations may result in longer lead times for product delivery than desired by many of our customers. If we are unable to increase our production capacity to meet future demand, some of our customers may seek other sources of supply, our future growth may be limited or our results of operations may be adversely affected.

We face the risk of financial exposure to product liability claims alleging that the use of products that incorporate our semiconductors resulted in adverse effects.

Approximately 10.2% of our net revenues for the fiscal year ended March 31, 2017 were derived from sales of products used in medical devices, such as defibrillators. Product liability risks may exist even for those medical devices that have received regulatory approval for commercial sale. We cannot be sure that the insurance that we maintain against product liability will be adequate to cover our losses. Any defects in our semiconductors used in these devices, or in any other product, could result in significant product liability costs to us.

Our results of operations could vary as a result of the methods, estimates, and judgments that we use in applying our accounting policies.

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see “Critical Accounting Policies and Significant Management Estimates” in Part II, Item 7 of this Form 10-K). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

We are exposed to various risks related to the regulatory environment.

We are subject to various risks related to new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by legislative bodies and/or regulatory agencies in the countries in which we operate; disagreements or disputes between national or regional regulatory agencies; and the interpretation and application of laws, rules and regulations. If we are found by a court or regulatory agency not to be in compliance with applicable laws, rules or regulations, our business, financial condition and results of operations could be materially and adversely affected.

In addition, approximately 10.2% of our net revenues for the fiscal year ended March 31, 2017 were derived from the sale of products included in medical devices that are subject to extensive regulation by numerous governmental authorities in the United States and internationally, including the U.S. Food and Drug

Administration, or FDA. The FDA and certain foreign regulatory authorities impose numerous requirements for medical device manufacturers to meet, including adherence to Good Manufacturing Practices, or GMP, regulations and similar regulations in other countries, which include testing, control and documentation requirements. Ongoing compliance with GMP and other applicable regulatory requirements is monitored through periodic inspections by federal and state agencies, including the FDA, and by comparable agencies in other countries. Our failure to comply with applicable regulatory requirements could prevent our products from being included in approved medical devices or result in damages or other compensation payable to medical device manufacturers.

Our business could also be harmed by delays in receiving or the failure to receive required approvals or clearances, the loss of obtained approvals or clearances or the failure to comply with existing or future regulatory requirements.

We invest in companies for strategic reasons and may need to record impairments in the value of the investments.

We make investments in companies to further our strategic objectives and support our key business initiatives. Such investments include investments in equity securities of public companies and investments in non-marketable equity securities of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support a product or initiative. The success of these companies is dependent on product development, market acceptance, operational efficiency and other key business success factors. The private companies in which we invest may fail for operational reasons or because they may not be able to secure additional funding, obtain favorable investment terms for future financings or take advantage of liquidity events such as initial public offerings, mergers and private sales. If any of these private companies fail, we could lose all or part of our investment in that company. If we determine that an other-than-temporary decline in the fair value exists for the equity securities of the public and private companies in which we invest, we write down the investment to its fair value and recognize the related write-down as an investment loss. Furthermore, when the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment, even at a loss. Our investments in non-marketable equity securities of private companies are not liquid, and we may not be able to dispose of these investments on favorable terms or at all. The occurrence of any of these events could negatively affect our results of operations.

Our ability to access capital markets could be limited.

From time to time, we may need to access the capital markets to obtain long-term financing. Although we believe that we can continue to access the capital markets on acceptable terms and conditions, our flexibility with regard to long-term financing activity could be limited by our existing capital structure, our credit ratings and the health of the semiconductor industry. In addition, many of the factors that affect our ability to access the capital markets, such as the liquidity of the overall capital markets and the current state of the economy, are outside of our control. There can be no assurance that we will continue to have access to the capital markets on favorable terms.

Geopolitical instability, war, terrorist attacks and terrorist threats, and government responses thereto, may negatively affect many aspects of our operations, revenues, costs and stock price.

Any such event may disrupt our operations or those of our customers or suppliers. Our markets currently include South Korea, Taiwan, Russia and Israel, which are currently experiencing political instability. Additionally, we have accounting and administrative operations in the Philippines, an external foundry and some of our design and sales operations are located in South Korea and assembly subcontractors are located in Indonesia, the Philippines and South Korea.

Business interruptions may damage our facilities or those of our suppliers.

Our operations and those of our suppliers are vulnerable to interruption by fire, earthquake, flood and other natural disasters, as well as power loss, telecommunications failure and other events beyond our control. We do

not have a detailed disaster recovery plan and our backup power sources have only a limited amount of time for the support of critical systems. Our facilities in California are located near major earthquake fault lines and have experienced earthquakes in the past. Globally, for example, the March 2011 earthquake in Japan adversely affected the operations of some of our Japanese suppliers, which limited the availability of certain production inputs to us for a period of time. If a natural disaster occurs, our ability to conduct our operations could be seriously impaired, which could harm our business, financial condition and results of operations and cash flows. We cannot be sure that the insurance we maintain against general business interruptions will be adequate to cover all our losses.

We may be affected by environmental laws and regulations.

We are subject to a variety of laws, rules and regulations related to the use, storage, handling, discharge and disposal of certain chemicals and gases used in our manufacturing process. Any of those regulations could require us to acquire expensive equipment or to incur substantial other expenses to comply with them. If we incur substantial additional expenses, product costs could significantly increase. Failure to comply with present or future environmental laws, rules and regulations could result in fines, suspension of production or cessation of operations.

Nathan Zommer, Ph.D. owns a significant interest in our common stock.

Nathan Zommer, Ph.D., our Chief Executive Officer, beneficially owned, as of May 23, 2017, approximately 20.9% of the outstanding shares of our common stock. As a result, Dr. Zommer can exercise significant control over all matters requiring stockholder approval, including the election of the Board of Directors. His holdings could result in a delay of, or serve as a deterrent to, any change in control of our company, which may reduce the market price of our common stock.

Our stock price is volatile.

The market price of our common stock has fluctuated significantly to date. The future market price of our common stock may also fluctuate significantly in the event of:

- variations in our actual or expected quarterly operating results;
- announcements or introductions of new products;
- technological innovations by our competitors or development setbacks by us;
- conditions in semiconductor markets;
- the commencement or adverse outcome of litigation;
- changes in analysts' estimates of our performance or changes in analysts' forecasts regarding our industry, competitors or customers;
- announcements of merger or acquisition transactions or a failure to achieve the expected benefits of an acquisition as rapidly or to the extent anticipated by participants in the stock market;
- terrorist attack or war;
- sales of our common stock by one or more members of management, including Nathan Zommer, Ph.D., Chief Executive Officer; or
- general economic and market conditions.

In addition, the stock market in recent years has experienced extreme price and volume fluctuations that have affected the market prices of many high technology companies, including semiconductor companies. These fluctuations have often been unrelated or disproportionate to the operating performance of companies in our industry, and could harm the market price of our common stock.

The anti-takeover provisions of our certificate of incorporation and of the Delaware General Corporation Law may delay, defer or prevent a change of control.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any

further vote or action by our stockholders. The rights of the holders of common stock will be subject to, and may be harmed by, the rights of the holders of any shares of preferred stock that may be issued in the future. The issuance of preferred stock may delay, defer or prevent a change in control because the terms of any issued preferred stock could potentially prohibit our consummation of any merger, reorganization, sale of substantially all of our assets, liquidation or other extraordinary corporate transaction, without the approval of the holders of the outstanding shares of preferred stock. In addition, the issuance of preferred stock could have a dilutive effect on our stockholders.

Our stockholders must give substantial advance notice prior to the relevant meeting to nominate a candidate for director or present a proposal to our stockholders at a meeting. These notice requirements could inhibit a takeover by delaying stockholder action. The Delaware anti-takeover law restricts business combinations with some stockholders once the stockholder acquires 15% or more of our common stock. The Delaware statute makes it more difficult for us to be acquired without the consent of our Board of Directors and management.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal facilities are described below:

<u>Principal Facilities</u>	<u>Approximate Square Footage</u>	<u>Lease Expiration</u>	<u>Use</u>
Beverly, Massachusetts	83,000	(1)	Research and development, manufacturing, sales and distribution
Chippenham, England	100,000	December 2022	Research and development, manufacturing, sales and distribution
Lampertheim, Germany	170,000	(1)	Research and development, manufacturing, sales and distribution
Manila, Philippines	43,000	September 2020	Product testing and global support
Milpitas, California	51,000	(1)	Corporate headquarters, research and development, sales and distribution

(1) Owned, not leased.

We believe that our current facilities are suitable to our needs and will be adequate through at least fiscal year 2018 and that suitable additional or replacement space will be available in the future as needed on commercially reasonable terms. The Lampertheim property serves as collateral for a loan and is subject to a security interest.

Item 3. *Legal Proceedings*

On April 17, 2017, North Plate Semiconductor, LLC, or NPS, filed an action for patent infringement against us in the United States District Court for the Eastern District of Michigan, alleging that certain of our IGBTs and power MOSFETs sold in the United States infringe U.S. patents owned by NPS. NPS accused us of infringing the following U.S. patents: 6,617,641; 6,620,653; 6,667,515; 6,717,210; 6,765,239 and 6,936,893. NPS’s complaint sought unspecified damages, but not less than a reasonable royalty on our products that NPS accused of infringement. In its complaint, NPS contended that our alleged infringement of NPS’s patents had been and continued to be willful and sought trebled damages.

There can be no assurance of a favorable outcome in the NPS suit. Although we believe that we have meritorious defenses to the claims of infringement set forth in NPS’s complaint, in the event of an adverse outcome, damages awarded by the U.S. District Court could be materially adverse to our financial condition, results of operations or cash flows.

We are also involved in a variety of other legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition, results of operations and cash flows. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs.

Item 4. Mine Safety Disclosures

Not Applicable.

Executive Officers of the Registrant

The executive officers, their ages and positions at our company, as well as certain biographical information of these individuals, are set forth below. The ages of the individuals are provided as of March 31, 2017.

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Nathan Zommer	69	Chairman of the Board and Chief Executive Officer
Uzi Sasson	54	President, Chief Executive Officer, Chief Financial Officer, Secretary and Director

There are no family relationships among our directors and executive officers.

Nathan Zommer. Dr. Zommer, founder of our company, has served as a Director since our inception in 1983, and has served as Chairman of the Board and Chief Executive Officer since March 1993. From 1993 to 2009, Dr. Zommer served as President and, from 1984 to 1993, Dr. Zommer served as Executive Vice President. Prior to founding our company, Dr. Zommer served in a variety of positions with Intersil, Hewlett Packard and General Electric, including as a scientist in the Hewlett Packard Laboratories and Director of the Power MOS Division for Intersil/General Electric. As our founder, Dr. Zommer has knowledge of our company’s complete history. This, taken together with his technical skills, background as an executive and over three decades of experience in the semiconductor industry, makes him uniquely qualified to be on our Board. Dr. Zommer received his B.S. and M.S. degrees in Physical Chemistry from Tel Aviv University and a Ph.D. in Electrical Engineering from Carnegie Mellon University.

Uzi Sasson. Mr. Sasson has served as our Chief Executive Officer since August 2016, our President since December 2009, and our Chief Financial Officer and Secretary since November 2004. He has been a Director since June 2015 and he was also a Director from August to November 2004. From November 2004 to December 2009, Mr. Sasson was our Vice President and, from June 2007 to August 2010, Mr. Sasson held the title of Chief Operating Officer. Prior to joining our company, Mr. Sasson worked in tax, accounting and finance for technology and accounting firms. Mr. Sasson brings to the Board his decade long experience in the operational and financial matters of our company and expertise from his career in tax, public accounting and finance prior to joining our company. Mr. Sasson has a M.S. in Taxation and a B.S. in Accounting from Golden Gate University and is a Certified Public Accountant in California.

PART II

Item 5. *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

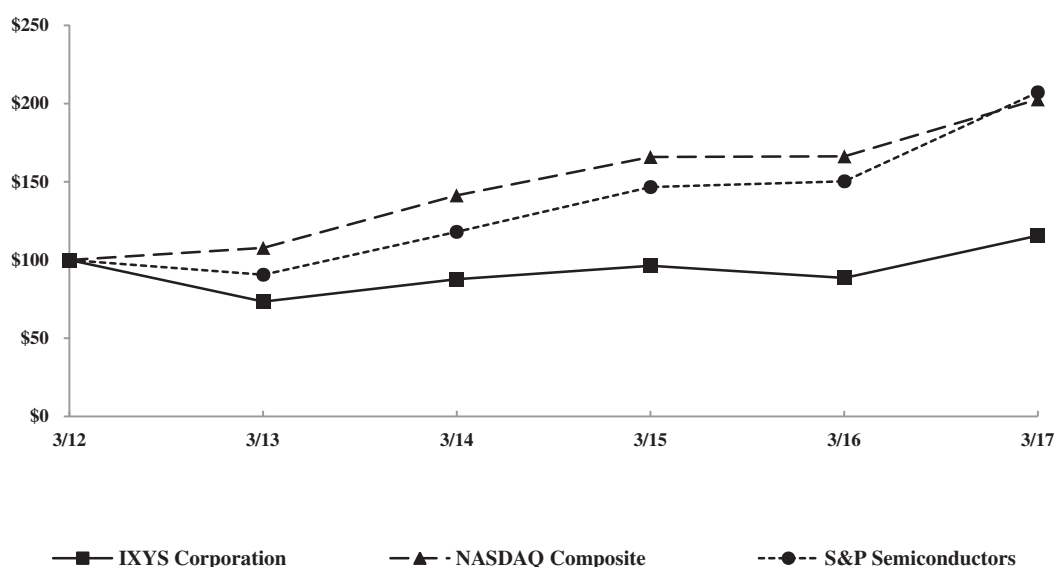
Our common stock is traded on the NASDAQ Global Select Market under the symbol “IXYS.” The following table presents, for the periods indicated, the intraday high and low sale prices per share of our common stock as reported by the NASDAQ Global Select Market:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Fiscal Year Ended March 31, 2017:				
High	\$12.02	\$12.24	\$12.25	\$14.60
Low	\$ 9.59	\$10.08	\$10.06	\$11.10
Fiscal Year Ended March 31, 2016:				
High	\$16.76	\$15.62	\$14.00	\$12.60
Low	\$11.05	\$10.00	\$10.84	\$10.03

The number of record holders of our common stock as of May 23, 2017 was 221. During fiscal 2017, we paid a quarterly cash dividend of \$0.04 per share for the quarter ended June 30, 2016. No dividends were declared for the remaining quarters of the year. The quarterly dividend is at the discretion of the Board of Directors. During fiscal 2016, we paid a quarterly cash dividend of \$0.035 per share for the quarter ended June 30, 2015 and a quarterly cash dividend of \$0.04 for the remaining quarters of the year.

Stock Performance Graph

The line graph below shows the total stockholder return of an investment of \$100 in cash for the period from March 31, 2012 through March 31, 2017 for (i) our common stock, (ii) the NASDAQ Composite Index and (iii) the Standard & Poor’s Semiconductors Index. All values assume reinvestment of the full amount of all dividends and are calculated as of March 31 of each year. Historical stock price performance should not be relied upon as indicative of future stock price performance.



Issuer Purchases of Equity Securities

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
January 1, 2017 – January 31, 2017	—	—	—	832,578
February 1, 2017 – February 28, 2017	50,000	\$12.64	50,000	782,578
March 1, 2017 – March 31, 2017	46,200	12.57	46,200	736,378
Total	<u>96,200</u>	<u>\$12.61</u>	<u>96,200</u>	

(1) On August 28, 2015, our Board of Directors authorized a program to repurchase up to 1,000,000 shares of our common stock.

Item 6. Selected Financial Data

The following selected consolidated financial information should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended March 31, 2017, 2016 and 2015, and the balance sheet data as of March 31, 2017 and 2016 are derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the years ended March 31, 2014 and 2013 and the balance sheet data as of March 31, 2015, 2014 and 2013 are derived from our consolidated financial statements that are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of results to be expected in any future period.

	Year Ended March 31,				
	2017	2016	2015	2014(1)	2013
	(In thousands, except per share amounts)				
Statement of operations data:					
Net revenues	\$322,123	\$317,209	\$338,767	\$336,330	\$280,014
Cost of goods sold	216,541	217,451	236,802	236,120	195,134
Gross profit	105,582	99,758	101,965	100,210	84,880
Operating expenses:					
Research, development and engineering	30,538	29,986	26,667	30,884	28,022
Selling, general and administrative	41,733	38,384	41,810	41,983	39,287
Amortization of acquisition-related intangible assets	3,068	5,555	5,978	10,521	2,244
Impairment of acquisition-related intangible assets	1,391	—	—	—	—
Total operating expenses	76,730	73,925	74,455	83,388	69,553
Operating income	28,852	25,833	27,510	16,822	15,327
Other income (expense):					
Interest income	265	212	240	157	334
Interest expense	(2,545)	(1,641)	(1,397)	(1,579)	(938)
Other income (expense), net	2,328	(915)	4,077	(1,941)	(41)
Income before income tax provision	28,900	23,489	30,430	13,459	14,682
Provision for income tax	(7,552)	(8,748)	(6,690)	(7,413)	(7,034)
Net income	\$ 21,348	\$ 14,741	\$ 23,740	\$ 6,046	\$ 7,648
Net income per share:					
Basic	\$ 0.68	\$ 0.47	\$ 0.75	\$ 0.19	\$ 0.25
Diluted	\$ 0.66	\$ 0.46	\$ 0.74	\$ 0.19	\$ 0.24
Cash dividends per common share	\$ 0.040	\$ 0.155	\$ 0.135	\$ 0.120	\$ 0.060
Weighted average shares used in per share calculation:					
Basic	31,544	31,579	31,531	31,146	31,025
Diluted	32,248	32,381	32,239	31,916	31,695

(1) During fiscal 2014, we acquired a microcontroller product line from Samsung Electronics Co., Ltd.

	Year Ended March 31,				
	2017	2016	2015	2014(1)	2013
	(In thousands)				
Selected operating data:					
Gross profit margin	32.8%	31.4%	30.1%	29.8%	30.3%
Depreciation and amortization	\$ 10,597	\$ 13,981	\$ 17,311	\$ 21,274	\$ 12,492

	March 31,				
	2017	2016	2015	2014(1)	2013
	(In thousands)				
Balance sheet data:					
Cash and cash equivalents	\$167,904	\$155,806	\$121,164	\$ 98,438	\$107,116
Working capital	266,000	253,820	169,096	177,684	188,111
Total assets	433,979	422,701	373,855	383,182	333,476
Total long-term obligations	98,310	108,896	27,760	43,204	31,640
Total stockholders' equity	297,855	279,295	267,301	270,632	253,608

	Year Ended March 31,				
	2017	2016	2015	2014(1)	2013
	(In thousands)				
Cash flow data:					
Cash provided by operating activities	\$ 34,537	\$ 29,593	\$ 48,194	\$ 19,329	\$ 31,637
Cash used in investing activities(2)	(11,193)	(22,185)	(15,148)	(27,111)	(11,277)
Cash provided by (used in) financing activities	(6,998)	25,977	(5,129)	(3,344)	(10,856)

(1) During fiscal 2014, we acquired a microcontroller product line from Samsung Electronics Co., Ltd.

(2) Cash used in investing activities has been restated in accordance with the amended guidance we adopted in fiscal 2017 which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. See Note 2, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the amended guidance.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains forward-looking statements, which are subject to certain risks and uncertainties, including, without limitation, those described elsewhere in this Form 10-K and, in particular, in Item 1A of Part I hereof. Actual results may differ materially from the results discussed in the forward-looking statements. For a discussion of risks that could affect future results, see "Item 1A. Risk Factors." All forward-looking statements included in this document are made as of the date hereof, based on the information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement, except as may be required by law.

Overview

We are a multi-market integrated semiconductor company. Our three principal product groups are: power semiconductors; ICs; and systems and RF power semiconductors.

Our power semiconductors improve system efficiency and reliability by converting electricity at relatively high voltage and current levels into the finely regulated power required by electronic products. We focus on the market for power semiconductors that are capable of processing greater than 200 watts of power.

We also design, manufacture and sell integrated circuits for a variety of applications. Our microcontrollers provide application-specific, embedded SoC, solutions for the industrial and consumer markets. Our analog and mixed-signal ICs are principally used in telecommunications applications. Our mixed-signal ASICs address the requirements of the medical imaging equipment and display markets. Our power management and control ICs are used in conjunction with our power semiconductors.

Our systems include laser diode drivers, high voltage pulse generators and modulators, and high power subsystems, sometimes known as stacks, that are principally based on our high power semiconductor devices. Our RF power semiconductors enable circuitry that amplifies or receives radio frequencies in wireless and other microwave communication applications, medical imaging applications and defense and space applications.

From fiscal 2016 to fiscal 2017, our revenues increased. The increase in revenues reflected increased sales in most of our major application markets and in all of our major geographic areas, except the Asia Pacific region. Increasing sales of our power semiconductor products were the major contributor to our sales growth in fiscal 2017, while sales of ICs and systems and RF power semiconductors decreased as compared to fiscal 2016. The gross profit margin increased during fiscal 2017. This was primarily due to a shift in product mix towards higher-margin products and improved utilization of our capacity. Our selling expenses decreased in fiscal 2017 as the result of a selling expense accrued for a product issue in fiscal 2016, which was fully reversed upon resolution of the issue in fiscal 2017. Our general and administrative expenses increased, mainly because of a recovery of bad debt in fiscal 2016, which had the effect of reducing general and administrative expenses. Our research, development and engineering expenses, or R&D expenses, slightly increased due to increased R&D activities in fiscal 2017. Over the next year, we expect our selling expenses to vary with changing revenues. We expect our general and administrative expenses to remain relatively consistent. Similarly, we expect our R&D expenses to remain fairly consistent.

Critical Accounting Policies and Significant Management Estimates

The discussion and analysis of our financial condition and results of operations are based upon our audited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates the reasonableness of its estimates. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require that we make significant judgments and estimates in preparing our consolidated financial statements.

Revenue recognition. Revenue is recognized when there is persuasive evidence that an arrangement exists, when delivery has occurred, when the price to the buyer is fixed or determinable and when collectability of the receivable is reasonably assured. These elements are typically met when title to the products is passed to the buyer, which is generally when product is shipped to the customer with sales terms ex-works, or when product is delivered to the customer with sales terms delivered duty paid.

We sell to distributors and original equipment manufacturers. Approximately 58.7% of our net revenues in fiscal 2017 were from distributors. We provide some of our distributors with the following programs: stock rotation and ship and debit.

Reserves for sales returns and allowances, including allowances for so called “ship and debit” transactions, are recorded at the time of shipment, and are based on historical levels of returns and current economic trends and changes in customer demand.

Accounts receivable from distributors are recognized and inventory is relieved when title to inventories transfer, typically upon shipment from us, at which point we have a legally enforceable right to collection under normal payment terms. In the circumstances where we are not able to reasonably and reliably estimate the actual returns, revenues and costs relating to distributor sales are deferred until products are sold by the distributors to the distributors’ end customers. Deferred amounts are presented net and included under “Accrued expenses and other current liabilities.” For fiscal 2017, 2016 and 2015, we were able to reasonably estimate the actual returns; therefore, no revenues and costs relating to distributors were deferred.

We state our revenues net of any taxes collected from customers that are required to be remitted to various government agencies. The amount of taxes collected from customers and payable to governmental entities is included on the balance sheet as part of “Accrued expenses and other current liabilities.”

Allowance for sales returns. We maintain an allowance for sales returns based on estimated product returns by our customers. We estimate our allowance for sales returns based on our historical return experience, current economic trends, changes in customer demand, known returns we have not received and other assumptions. If we were to make different judgments or utilize different estimates, the amount and timing of our revenue could be materially different. Given that our revenues consist of a high volume of relatively similar products, to date our actual returns and allowances have not fluctuated significantly from period to period, and our returns provisions have historically been reasonably accurate. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations.

Allowance for stock rotation. We also provide “stock rotation” to select distributors. The rotation allows distributors to return a percentage of the previous six months’ sales in exchange for orders of an equal or greater amount. In the fiscal years ended March 31, 2017, 2016 and 2015, under the program, approximately \$1,459,000, \$1,494,000 and \$1,741,000, respectively, of products were returned to us under the program. We establish the allowance for sales to distributors except in cases where the revenue recognition is deferred and recognized upon sale by the distributor of products to the end-customer. The allowance, which is management’s best estimate of future returns, is based upon the historical experience of returns and inventory levels at the distributors. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations. Should distributors increase stock rotations beyond our estimates, these statements would be adversely affected.

Allowance for ship and debit. Ship and debit is a program designed to assist distributors in meeting competitive prices in the marketplace on sales to their end-customers. Ship and debit requires a request from the distributor for a pricing adjustment for a specific part for a customer sale to be shipped from the distributor’s stock. We have no obligation to accept this request. However, it is our historical practice to allow some companies to obtain pricing adjustments for inventory held. We receive periodic statements regarding our products held by our distributors. Ship and debit authorizations may cover current and future distributor activity for a specific part for sale to a distributor’s customer. At the time we record sales to distributors, we provide an allowance for the estimated future distributor activity related to such sales since it is probable that such sales to distributors will result in ship and debit activity. The sales allowance requirement is based on sales during the period, credits issued to distributors, distributor inventory levels, historical trends, market conditions, pricing trends we see in our direct sales activity with original equipment manufacturers and other customers, and input from sales, marketing and other key management. We believe that the analysis of these inputs enables us to make reliable estimates of future credits under the ship and debit program. This analysis requires the exercise of significant judgments. Our actual results to date have approximated our estimates. At the time the distributor ships the part from stock, the distributor debits us for the authorized pricing adjustment. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations. If competitive pricing were to decrease sharply and unexpectedly, our estimates might be insufficient, which could adversely affect our operating results.

Additions to the ship and debit allowance are estimates of the amount of expected future ship and debit activity related to sales during the period. Additions to the allowance reduce revenues and gross profit in the period. The following table sets forth the beginning and ending balances of, additions to and deductions from our allowance for ship and debit during the three years ended March 31, 2017 (in thousands):

Balance March 31, 2014	\$ 1,071
Additions	5,765
Deductions	<u>(5,777)</u>
Balance March 31, 2015	1,059
Additions	4,479
Deductions	<u>(4,672)</u>
Balance March 31, 2016	866
Additions	7,363
Deductions	<u>(6,680)</u>
Balance March 31, 2017	<u>\$ 1,549</u>

Trade accounts receivable and allowance for doubtful accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in the existing accounts receivable. We determine the allowance based on the aging of our accounts receivable, the financial condition of our customers and their payment history, our historical write-off experience and other assumptions. Past due balances and other specified accounts as necessary are reviewed individually. If we were to make different judgements of the financial condition of our customers or the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual write-offs may be in excess of the recorded allowance. This allowance is reported on the balance sheet as part of "Accounts receivable, net" and is included on the statement of operations as part of selling, general and administrative expenses, or SG&A expenses.

Inventories. Inventories are recorded at the lower of standard cost, which approximates actual cost on a first-in-first-out basis, or market value. Our accounting for inventory costing is based on the applicable expenditure incurred, directly or indirectly, in bringing the inventory to its existing condition. Such expenditures include acquisition costs, production costs and other costs incurred to bring the inventory to its use. As it is impractical to track inventory from the time of purchase to the time of sale for the purpose of specifically identifying inventory cost, our inventory is, therefore, valued based on a standard cost, given that the materials purchased are identical and interchangeable at various production processes. We review our standard costs on an as-needed basis but in any event at least once a year, and update them as appropriate to approximate actual costs. The authoritative guidance provided by FASB requires certain abnormal expenditures to be recognized as expenses in the current period instead of capitalized in inventory. It also requires that the amount of fixed production overhead allocated to inventory be based on the normal capacity of the production facilities.

We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. The value of our inventories is dependent on our estimate of future demand as it relates to historical sales. If our projected demand is overestimated, we may be required to reduce the valuation of our inventories below cost. We regularly review inventory quantities on hand and record an estimated provision for excess inventory based primarily on our historical sales and expectations for future use. We also recognize a reserve based on known technological obsolescence, when appropriate. Actual demand and market conditions may be different from those projected by our management. This could have a material effect on our operating results and financial position. If we were to make different judgments or utilize different estimates, the amount and timing of our write-down of inventories could be materially different.

Excess inventory frequently remains saleable. When excess inventory is sold, it yields a gross profit margin of up to 100%. Sales of excess inventory have the effect of increasing the gross profit margin beyond that which would otherwise occur, because of previous write-downs. Once we have written down inventory below cost, we do not write it up when it is subsequently utilized, sold or scrapped. We do not physically segregate excess inventory nor do we assign unique tracking numbers to it in our accounting systems. Consequently, we cannot isolate the sales prices of excess inventory from the sales prices of non-excess inventory. Therefore, we are unable to report the amount of gross profit resulting from the sale of excess inventory or quantify the favorable impact of such gross profit on our gross profit margin.

The following table provides information on our excess and obsolete inventory reserve charged against inventory at cost (in thousands):

Balance at March 31, 2014	\$24,304
Utilization or sale	(1,637)
Scrap	(2,901)
Additional provision	4,487
Foreign currency translation adjustments	<u>(1,500)</u>
Balance at March 31, 2015	22,753
Utilization or sale	(2,455)
Scrap	(3,217)
Additional provision	4,125
Foreign currency translation adjustments	<u>174</u>
Balance at March 31, 2016	21,380
Utilization or sale	(3,813)
Scrap	(3,682)
Additional provision	5,838
Foreign currency translation adjustments	<u>(425)</u>
Balance at March 31, 2017	<u>\$19,298</u>

The practical efficiencies of wafer fabrication require the manufacture of semiconductor wafers in minimum lot sizes. Often, when manufactured, we do not know whether or when all the semiconductors resulting from a lot of wafers will sell. With more than 10,000 different part numbers for semiconductors, excess inventory resulting from the manufacture of some of those semiconductors will be continual and ordinary. Because the cost of storage is minimal when compared to the potential value and because our products do not quickly become obsolete, we expect to hold excess inventory for potential future sale for years. Consequently, we have no set time line for the utilization, sale or scrapping of excess inventory.

In addition, our inventory is also being written down to the lower of cost or market. We review our inventory listing on a quarterly basis for an indication of losses being sustained for costs that exceed selling prices less direct costs to sell. When it is evident that our selling price is lower than current cost, inventory is marked down accordingly. At March 31, 2017 and 2016, our lower of cost or market reserves were \$384,000 and \$409,000, respectively.

Furthermore, we perform an annual inventory count or periodic cycle counts for specific parts that have a high turnover. We also periodically identify any inventory that is no longer usable and write it off.

Goodwill and intangible assets. Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired. The costs of acquired intangible assets are recorded at fair value at acquisition. Intangible assets with finite lives are amortized using the straight-line method or accelerated method over their estimated useful lives and evaluated for impairment in accordance with the authoritative guidance provided by FASB.

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment charges during the quarter ending March 31, or more frequently if events and circumstances indicate that the asset might be impaired, in accordance with the authoritative guidance provided by FASB. We first assess qualitative factors to determine whether it is necessary to perform the two-step fair value-based impairment test described below. If we believe that, as a result of the qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

Under the quantitative approach effective prior to January 2017, there were two steps in the determination of the impairment of goodwill. The first step compared the carrying amount of the net assets to the fair value of the reporting unit. The second step, if necessary, recognized an impairment loss to the extent the carrying value of

the reporting unit's net assets exceeds the implied fair value of goodwill. An impairment loss was recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. In January 2017, FASB issued amended guidance which eliminated the second step in goodwill impairment testing. Under the new guidance, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. The new guidance no longer requires us to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. We adopted the new guidance on a prospective basis commencing with the quarter ended March 31, 2017. See Note 2, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the recent accounting pronouncements and accounting changes. We operate our business as one reporting unit.

We assess the recoverability of the finite-lived intangible assets by examining the occurrences of certain events or changes of circumstances that indicate that the carrying amounts may not be recoverable. After our initial assessment, if it is necessary, we perform the impairment test by determining whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying values. Impairment losses, if any, are measured as the amount by which the carrying values of the assets exceed their fair value and are recognized in operating results. If a useful life is determined to be shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. During the quarter ended December 31, 2016, the intangible assets resulting from the RadioPulse acquisition were determined to be fully impaired and an impairment charge of \$1.4 million was recognized.

Income tax. In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our audited condensed consolidated balance sheets. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. A valuation allowance reduces our deferred tax assets to the amount that management estimates is more likely than not to be realized. In determining the amount of the valuation allowance, we consider income over recent years, estimated future taxable income, feasible tax planning strategies and other factors in each taxing jurisdiction in which we operate. If we determine that it is more likely than not that we will not realize all or a portion of our remaining deferred tax assets, then we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that it is likely that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, then the related portion of the valuation allowance will reduce income tax expense. Significant management judgment is required in determining our provision for income taxes and potential tax exposures, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish a valuation allowance, which could materially impact our financial position and results of operations. Our ability to utilize our deferred tax assets and the need for a related valuation allowance are monitored on an ongoing basis.

Furthermore, computation of our tax liabilities involves examining uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on the two-step process as prescribed by the authoritative guidance provided by FASB. The first step is to evaluate the tax position to determine whether there is sufficient available evidence to indicate if it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step requires us to measure and determine the approximate amount of the tax benefit at the largest amount that is more than 50% likely of being realized upon ultimate settlement with the tax authorities. It is inherently difficult and requires significant judgment to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reexamine these uncertain tax positions on a quarterly basis. This reassessment is based on various factors during the period including, but not limited to, changes in worldwide tax laws and treaties, changes in facts or circumstances, effectively settled issues under audit and any new audit activity. A change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Recent Accounting Pronouncements and Accounting Changes

For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 2, “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Results of Operations

The following table sets forth selected consolidated statements of operations data for the fiscal years indicated and the percentage change in such data from year to year. These historical operating results may not be indicative of the results for any future period.

	Year Ended March 31,				
	2017 (000)	% Change	2016 (000)	% Change	2015 (000)
Net revenues	\$322,123	1.5	\$317,209	(6.4)	\$338,767
Cost of goods sold	216,541	(0.4)	217,451	(8.2)	236,802
Gross profit	<u>\$105,582</u>	5.8	<u>\$ 99,758</u>	(2.2)	<u>\$101,965</u>
Operating expenses:					
Research, development and engineering	\$ 30,538	1.8	\$ 29,986	12.4	\$ 26,667
Selling, general and administrative	41,733	8.7	38,384	(8.2)	41,810
Amortization of acquisition-related intangible assets	3,068	(44.8)	5,555	(7.1)	5,978
Impairment of acquisition-related intangible assets	1,391	nm	—	nm	—
Total operating expenses	<u>\$ 76,730</u>	3.8	<u>\$ 73,925</u>	(0.7)	<u>\$ 74,455</u>

nm = not meaningful

The following table sets forth selected statements of operations data as a percentage of net revenues for the fiscal years indicated. These historical operating results may not be indicative of the results for any future period.

	Year Ending March 31,		
	2017 % of Net Revenues	2016 % of Net Revenues	2015 % of Net Revenues
Net revenues	100.0	100.0	100.0
Cost of goods sold	67.2	68.6	69.9
Gross profit	<u>32.8</u>	<u>31.4</u>	<u>30.1</u>
Operating expenses:			
Research, development and engineering	9.5	9.5	7.9
Selling, general and administrative	13.0	12.1	12.3
Amortization of acquisition-related intangible assets	0.9	1.7	1.8
Impairment of acquisition-related intangible assets	0.4	—	—
Total operating expenses	<u>23.8</u>	<u>23.3</u>	<u>22.0</u>
Operating income	9.0	8.1	8.1
Other income (expense), net	—	(0.7)	0.9
Income before income tax provision	9.0	7.4	9.0
Provision for income tax	<u>(2.4)</u>	<u>(2.8)</u>	<u>(2.0)</u>
Net income	<u>6.6</u>	<u>4.6</u>	<u>7.0</u>

Revenues

The following table sets forth the net revenues for each of our product groups for fiscal 2017, 2016 and 2015:

Net Revenues(1)

	Year Ended March 31,				
	2017 (000)	% Change	2016 (000)	% Change	2015 (000)
Power semiconductors	\$221,312	3.7	\$213,347	(2.8)	\$219,445
Integrated circuits	82,067	(2.4)	84,078	(12.0)	95,547
Systems and RF power semiconductors	18,744	(5.3)	19,784	(16.8)	23,775
Total	<u>\$322,123</u>	1.5	<u>\$317,209</u>	(6.4)	<u>\$338,767</u>

(1) Revenue information includes intellectual property revenues that are not included in average selling prices.

The following tables set forth the average selling prices, or ASPs, and units for fiscal 2017, 2016 and 2015:

Average Selling Prices

	Year Ended March 31,				
	2017	% Change	2016	% Change	2015
Power semiconductors	\$ 1.72	(7.0)	\$ 1.85	(11.9)	\$ 2.10
Integrated circuits	\$ 0.45	—	\$ 0.45	2.3	\$ 0.44
Systems and RF power semiconductors	\$36.61	(26.5)	\$49.83	45.9	\$34.16

Units

	Year Ended March 31,				
	2017 (000)	% Change	2016 (000)	% Change	2015 (000)
Power semiconductors	128,985	11.7	115,428	10.6	104,345
Integrated circuits	180,726	(2.0)	184,443	(14.8)	216,358
Systems and RF power semiconductors	512	29.0	397	(43.0)	696
Total	<u>310,223</u>	3.3	<u>300,268</u>	(6.6)	<u>321,399</u>

The following tables set forth the net revenues by geographic region for fiscal 2017, 2016 and 2015:

	Year Ended March 31,					
	2017		2016		2015	
	Net Revenues (000)	% of Net Revenues	Net Revenues (000)	% of Net Revenues	Net Revenues (000)	% of Net Revenues
Europe and the Middle East	\$ 93,820	29.1	\$ 92,339	29.1	\$100,102	29.5
Asia Pacific	138,240	42.9	140,188	44.2	143,071	42.2
Rest of the World	8,564	2.7	8,688	2.7	10,280	3.1
International revenues	240,624	74.7	241,215	76.0	253,453	74.8
USA	81,499	25.3	75,994	24.0	85,314	25.2
Total	<u>\$322,123</u>	<u>100.0</u>	<u>\$317,209</u>	<u>100.0</u>	<u>\$338,767</u>	<u>100.0</u>

Comparison of Fiscal 2016 Revenues to Fiscal 2017 Revenues

From fiscal 2016 to fiscal 2017, net revenues increased by \$4.9 million, or 1.5%, which reflected an increase of \$8.0 million, or 3.7%, in the sale of power semiconductors, offset by a decrease of \$2.0 million, or 2.4%, in the sale of ICs and a decrease of \$1.1 million, or 5.3%, in the sale of systems and RF power semiconductors.

The increase in the net revenues from power semiconductors was largely the result of a \$6.5 million increase in the sale of power MOS transistors, primarily to the consumer products market and the communication infrastructure market, and a \$1.5 million increase in the sale of bipolar products, principally to the medical market and the industrial and commercial market. The decline in the net revenues from ICs was largely caused by a \$4.0 million decrease in the sale of microcontrollers to the consumer products market, partially offset by a \$2.0 million increase in the sale of ICs, mainly due to the increased sale of SSRs to the industrial and commercial market. The revenues from the sale of systems and RF power semiconductors decreased primarily due to a \$4.6 million decrease in the sale of subassemblies principally to the industrial and commercial market, partially offset by a \$3.5 million increase in the sale of RF power semiconductors, primarily to the military and aerospace market and communication infrastructure market.

From fiscal 2016 to fiscal 2017, the ASPs of ICs remained unchanged while the ASPs of power semiconductors and systems and RF power semiconductors decreased. The reductions in the ASPs of power semiconductors were largely because of a reduction in the ASPs of bipolar devices, which was caused by a shift in product mix as we shipped higher quantities of lower-priced products. The decrease in the ASPs of systems and RF power semiconductors was due to a reduction in the ASPs of subassemblies, partially offset by an increase in the ASPs of RF power semiconductors.

From fiscal 2016 to fiscal 2017, the increase in unit shipments of our power semiconductors was caused by both more power MOS transistors and bipolar devices being shipped. The unit decline in ICs was principally caused by reduced shipments of microcontrollers, partially offset by higher shipments of SSRs and ASICs. The increase in systems and RF power semiconductor units was caused by higher shipments of RF power semiconductors.

Intellectual property revenues, consisting of sales, licensing fees and royalties, were \$476,000 for fiscal 2017 as compared to \$933,000 for fiscal 2016.

From fiscal 2016 to fiscal 2017, our sales to all major application markets increased, except the consumer products market. Geographically, we experienced increased sales in all major geographic regions, except the Asia Pacific region.

In fiscal 2017 and 2016, a distributor accounted for 12.3% and 12.2% of our net revenues, respectively. In fiscal 2017, another distributor accounted for 10.8% of our net revenues.

Comparison of Fiscal 2015 Revenues to Fiscal 2016 Revenues

From fiscal 2015 to fiscal 2016, net revenues declined by \$21.6 million, or 6.4%. The decline was across all product groups and reflected a decrease of \$6.1 million, or 2.8%, in the sale of power semiconductors, a decrease of \$11.5 million, or 12.0%, in the sale of ICs and a decrease of \$4.0 million, or 16.8%, in the sale of systems and RF power semiconductors.

The decrease in power semiconductors was primarily due to a \$10.0 million decrease in the sale of bipolar products, primarily to the industrial and commercial market, offset by a \$4.5 million increase in the sale of power MOS transistors, principally to the industrial and commercial market. The decline in revenues from ICs was largely caused by reduced sales of microcontrollers. The revenues from the sale of systems and RF power semiconductors decreased primarily due to reduced sales of subassemblies to the industrial and commercial market and a decline in the sale of RF power semiconductors.

From fiscal 2015 to fiscal 2016, the ASPs of ICs remained relatively unchanged while the changes in ASPs in power semiconductors and systems and RF power semiconductors were due to shifts in product mix. For the same periods, the changes in unit shipments of our power semiconductors and systems and RF power semiconductors were broad-based across product lines. The unit decline in ICs was primarily caused by reduced shipments of microcontrollers.

Intellectual property revenues, consisting of sales, licensing fees and royalties, were \$933,000 for fiscal 2016 as compared to \$1.2 million for fiscal 2015.

From fiscal 2015 to fiscal 2016, our sales to the medical market increased while sales to other major application markets declined. Geographically, we experienced reduced sales in all major geographic areas, including the U.S., Europe and the Middle East, and the Asia Pacific area.

In fiscal 2016 and 2015, a distributor accounted for 12.2% and 10.2% of our net revenues, respectively. In fiscal 2015, another distributor accounted for 10.5% of our net revenues.

Gross Profit

From fiscal 2016 to fiscal 2017, gross profit increased by \$5.8 million and the gross profit margin increased from 31.4% to 32.8%. The increase in gross profit, measured both in dollars and in percentage of net revenues, was largely because of a shift in our product mix towards higher-margin products and higher utilization of our manufacturing facilities.

From fiscal 2015 to fiscal 2016, gross profit decreased by \$2.2 million while the gross profit margin increased from 30.1% to 31.4%. The decrease in gross profit, measured in dollars, was largely because of lower net revenues. The higher gross profit margin was principally caused by favorable changes in product mix towards higher-margin products and improved utilization of our manufacturing facilities.

In each of the last three years, our gross profit and gross profit margin were positively affected by the utilization and sale of excess inventory, which had previously been written down. See “Critical Accounting Policies and Significant Management Estimates — Inventories” elsewhere in the Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Research, Development and Engineering

R&D expenses typically consist of internal engineering efforts for product design, process improvement and development. From fiscal 2016 to fiscal 2017, our R&D expenses increased by \$552,000 due to an increase in R&D activities in fiscal 2017. As a percentage of net revenues, R&D expenses were 9.5% in both fiscal years. From fiscal 2015 to fiscal 2016, R&D expenses increased by \$3.3 million and increased from 7.9% to 9.5% as a percentage of net revenues. The increases were largely due to the acquisition of RadioPulse in fiscal 2016.

Selling, General and Administrative

From fiscal 2016 to fiscal 2017, SG&A expenses increased by approximately \$3.3 million and increased from 12.1% to 13.0% as a percentage of net revenues. The increase was mainly due to a recovery in bankruptcy in fiscal 2016, which had the effect of reducing bad debt expenses by \$2.7 million, and an increase in general and administrative expenses.

From fiscal 2015 to fiscal 2016, SG&A expenses decreased by approximately \$3.4 million and decreased from 12.3% to 12.1% as a percentage of net revenues. The decreases were mainly due to lower bad debt expenses caused by the \$2.7 million recovery in bankruptcy, lower selling expenses corresponding to the reduced revenues and lower legal expenses.

Amortization of Acquisition-Related Intangible Assets

In May 2015, we acquired RadioPulse and recorded \$2.9 million of identifiable intangible assets. During the quarter ended June 30, 2013, we completed the acquisition of a 4-bit and 8-bit microcontroller product line, or the Acquired MCU Business, and recorded \$24.0 million of intangible assets. We also recorded certain intangible assets during fiscal 2010 in connection with the acquisition of Zilog. The intangible assets from these acquisitions are amortized based upon their estimated useful lives of up to 72 months. For fiscal 2017, 2016 and 2015, amortization expenses on acquisition-related intangible assets were \$3.1 million, \$5.6 million and \$6.0 million, respectively. See Note 7, “Goodwill and Intangible Assets” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion regarding acquisition-related intangible assets.

Impairment of Acquisition-Related Intangible Assets

During fiscal 2017, the intangible assets resulting from the RadioPulse acquisition were determined to be fully impaired. Accordingly, we recorded an impairment charge of \$1.4 million. See Note 7, “Goodwill and Intangible Assets” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for a further discussion of the impairment analysis of acquisition-related intangible assets.

Other Income (Expense)

In fiscal 2017, interest expense, net was \$2.3 million as compared to \$1.4 million in fiscal 2016 and \$1.2 million in fiscal 2015. The increase in interest expense, net from fiscal 2016 to fiscal 2017 was primarily due to a higher average principal balance under the line of credit during fiscal 2017. The increase in interest expense, net from fiscal 2015 to fiscal 2016 was primarily due to an additional loan under the line of credit during fiscal 2016. See Note 8, “Borrowing Arrangements” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the arrangement.

In fiscal 2017, other income, net was \$2.3 million as compared to other expense, net of \$915,000 in fiscal 2016 and other income, net of \$4.1 million in fiscal 2015, respectively. The shift from other expense, net, in fiscal 2016 to other income, net, in fiscal 2017 was primarily caused by gains associated with changes in exchange rates for foreign currency transactions and gains from equity method investments. The shift from other income, net, in fiscal 2015 to other expense, net in fiscal 2016 was primarily caused by losses associated with changes in exchange rates for foreign currency transactions, offset by a decrease in the other than temporary write-down of our investments in marketable equity securities. In fiscal 2015, we recorded \$1.9 million in the other than temporary write-down of our investments in marketable equity securities while \$454,000 was recorded in the other than temporary write-down of our investments in marketable equity securities in fiscal 2016.

Provision for Income Tax

In fiscal 2017, the provision for income taxes reflected an effective tax rate of 26% as compared to 37% in fiscal 2016 and 22% in fiscal 2015. The fiscal 2017 and 2015 tax rates reflected higher income generated in certain foreign jurisdictions with lower taxes rates. The fiscal 2016 tax rate increase was caused by an out-of-period adjustment of 6% of pretax income and the recording of valuation allowances for net operating losses generated in foreign jurisdictions. See Note 16, “Income Taxes” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion regarding provision for income taxes.

Liquidity and Capital Resources

At March 31, 2017, cash and cash equivalents and restricted cash were \$169.2 million as compared to \$156.1 million at March 31, 2016 and \$121.4 million at March 31, 2015. Over the past three fiscal years, the cash generated by our operations, along with the borrowing under our revolving line of credit, has provided sufficient liquidity for our needs.

Our cash provided by operating activities in fiscal 2017 was \$34.5 million, primarily due to \$21.3 million of net income, \$13.0 million for receivable and inventory allowances and \$12.0 million depreciation, amortization and impairment. These were partially offset by a net decrease of \$17.5 million in operating assets and liabilities. Our cash provided by operating activities in fiscal 2016 was \$29.6 million, primarily due to \$14.7 million of net income, \$14.0 million depreciation and amortization and \$8.4 million for receivable and inventory allowances. These were partially offset by a net decrease of \$15.3 million in operating assets and liabilities. Our cash provided by operating activities in fiscal 2015 was \$48.2 million, primarily due to \$23.7 million of net income, \$17.3 million depreciation and amortization and \$11.8 million for receivable and inventory allowances. These were partially offset by a net decrease of \$5.6 million in operating assets and liabilities.

We used \$11.2 million in net cash for investing activities during fiscal 2017, as compared to \$22.2 million in fiscal 2016 and \$15.1 million in fiscal 2015. In fiscal 2017, 2016 and 2015, we spent \$4.7 million, \$15.1 million and \$8.2 million, respectively, on the purchases of investments and business acquisitions and we spent \$7.4 million, \$7.1 million and \$7.0 million on capital expenditures, respectively. Over the past three fiscal years, the capital expenditures were principally for equipment required to maintain or increase our production capacity.

For fiscal 2017, net cash used in financing activities was \$7.0 million, as compared to net cash provided in financing activities of \$26.0 million in fiscal 2016 and net cash used in financing activities of \$5.1 million in fiscal 2015. In fiscal 2017, we used \$9.0 million for principal repayments on loan obligations, \$1.3 million for cash dividends and \$1.2 million to purchase treasury stock, offset by proceeds from employee equity plans of \$4.5 million.

In fiscal 2016, we received proceeds of \$83.0 million from loans and \$4.3 million from employee equity plans, offset by \$48.1 million of principal repayments on capital lease and loan obligations, \$8.4 million to purchase treasury stock and \$4.9 million of cash dividends.

In fiscal 2015, we drew an additional \$30.0 million from our line of credit and we paid the two remaining installments due for the Acquired MCU Business purchased in fiscal 2014. In addition, we used \$4.3 million for payments of cash dividends to stockholders and \$3.6 million for principal repayments on capital lease and loan obligations, offset by proceeds from employee equity plans of \$2.6 million.

At March 31, 2017, loans payable totaled \$77.8 million, consisting of an outstanding loan balance of \$5.0 million owed IKB Deutsche Industriebank, or IKB, a revolving loan of \$72.6 million under a Revolving Credit Agreement and \$288,000 of loans assumed upon business acquisitions. Of the loans payable, \$1.1 million are classified as short-term loans and included in “Current portion of loans payable” in our audited consolidated balance sheet as of March 31, 2017. The loans payable of \$77.8 million represented 46.0% of our cash and cash equivalents and restricted cash and 26.1% of our stockholders’ equity. Over the past three fiscal years, making our loan payments did not materially affect our ability to fund our operating needs.

In June 2005, IXYS Semiconductor GmbH, our German subsidiary, borrowed €10.0 million, or about \$12.2 million at the time, from IKB. In April 2015, we replaced the loan with a new loan from IKB. Under the new agreement, we borrowed €6.5 million, or about \$7.2 million at the time. The loan has a term ending March 31, 2022 and bears a fixed annual interest rate of 1.75%. Each fiscal quarter a principal payment of €232,000, or about \$248,000, and a payment of accrued interest are required. See Note 8, “Borrowing Arrangements” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the loan.

On November 20, 2015, we entered into a Revolving Credit Agreement with a syndicate of banks for a revolving line of credit of \$125.0 million. In December 2016, the term of the loan was extended to November 20, 2019. See Note 8, “Borrowing Arrangements” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the agreement. The credit agreement also includes a \$10.0 million letter of credit subfacility. See Note 8, “Borrowing Arrangements” in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information regarding the terms of our credit arrangements.

In fiscal 2017, 2016 and 2015, we paid \$1.3 million, \$4.9 million and \$4.3 million in dividends, respectively, through a quarterly cash dividend of up to \$0.04 per share. No dividends were declared for the three quarters ended March 31, 2017. Any quarterly dividend is at the discretion of the Board of Directors.

On May 1, 2015, we acquired RadioPulse. At closing, we paid a cash consideration of \$14.7 million. We assumed loans of approximately \$2.4 million related to the acquisition of RadioPulse. These loans were primarily short-term facilities from financial institutions and carried a weighted average interest rate of 4.9%. The facilities were partially secured by bank deposits that were classified as restricted cash on our consolidated balance sheets. The loans were paid off in April 2016.

We assumed loans of approximately \$723,000, related to an acquisition completed during the quarter ended June 30, 2014. The assumed borrowings were non-interest loans from government agencies to support the research and development activities with various maturity dates through fiscal 2021, other than a loan of \$99,000 that we paid in full during the quarter ended September 30, 2014.

Additionally, we maintain three defined benefit pension plans: one in the UK, one in Germany and one in the Philippines. Benefits are based on years of service and the employees’ compensation. We either deposit funds for these plans with financial institutions, consistent with the requirements of local law, or accrue for the unfunded portion of the obligations. The UK and German plans have been curtailed. As such, the plans are closed

to new entrants and no credit is provided for additional periods of service. The total pension liability accrued for the three plans at March 31, 2017 was \$14.9 million. See Note 9, "Pension Plans" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for a discussion of the investment return assumptions, the underlying estimates and the expected future cash flows associated with the pension plans.

As of March 31, 2017, we had \$167.9 million in cash and cash equivalents. As of March 31, 2017, \$74.0 million of our \$167.9 million of cash and cash equivalents were held by our non-U.S. subsidiaries. Our non-U.S. cash and cash equivalents have been indefinitely reinvested and are earmarked for investment in our operations outside the U.S. and future acquisitions of non-U.S. entities. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S. and do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes. We believe that our cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our anticipated cash requirements for the next 12 months. Our liquidity could be negatively affected by a decline in demand for our products, increases in the cost of materials or labor, investments in new product development or one or more acquisitions. We occasionally use forward and option contracts in the normal course of business to manage our foreign currency exchange risks. We did not have any open foreign exchange forward and option contracts at March 31, 2017. There can be no assurance that additional debt or equity financing will be available when required or, if available, can be secured on terms satisfactory to us.

Off-Balance Sheet Arrangements

As of March 31, 2017 and 2016, we did not have any relationships with unconsolidated entities or financial partners, including entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Disclosures about Contractual Obligations and Commercial Commitments

Details of our contractual obligations and commitments as of March 31, 2017 to make future payments under contracts are set forth below (in thousands):

<u>Contractual Obligations(1)(2)</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Long term debt(3)(4)	\$ 77,849	\$ 1,058	\$74,695	\$2,096	\$ —
Operating lease obligations	4,786	1,350	2,296	1,140	—
Other purchase obligations(5)	26,476	23,700	2,776	—	—
Total	<u>\$109,111</u>	<u>\$26,108</u>	<u>\$79,767</u>	<u>\$3,236</u>	<u>\$ —</u>

(1) Contractual obligations shown in the table above exclude benefit payments to participants of our defined benefit pension plans. We summarize the estimated benefit payments to be made by the plans over the next ten years in Note 9, "Pension Plans" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. The table also excludes contributions we made to defined benefit pension plans and our defined contribution plan. Our future contributions to these plans depend on many uncertain factors including future returns on the defined benefit plan assets and the amount and timing of employee and discretionary employer contributions to the defined contribution plan. We provide additional information about our defined benefit pension plans and our defined contribution plan, in Note 14, "Employee Savings and Retirement Plans" and Note 9, "Pension Plans" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

(2) We are unable to reliably determine the timing of future payments related to our uncertain tax positions. Therefore, \$6.4 million of income taxes payable have been excluded from the table above. However, long term income taxes payable, which is a part of our consolidated balance sheet, includes these uncertain tax payments.

- (3) Includes principal only since the interest rates are variable. See Note 8, "Borrowing Arrangements" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for more details.
- (4) Includes approximately \$399,000 of unamortized balance of debt issuance cost. See Note 8, "Borrowing Arrangements" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for more details.
- (5) Represents commitments for purchase of inventory and property and equipment. These were not recorded as liabilities on our consolidated balance sheet as of March 31, 2017, as we had not yet received the related goods or taken title to the property.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to various risks, including fluctuations in interest and foreign currency rates. In the normal course of business, we also face risks that are either non-financial or non-quantifiable. Such risks principally include country risks, credit risks and legal risks that are not discussed or quantified in the following analyses.

Other than some immaterial investments, we currently keep our funds in accounts and instruments that, for accounting purposes, are cash and cash equivalents and do not carry interest rate risk to the fair market value of principal. We may, in the future, choose to place our funds in investments in high quality debt securities, potentially consisting of debt instruments of the United States or state or local governments or investment grade corporate issuers. Investments in both fixed and floating rate securities have some degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted by increases in interest rates. Floating rate securities may produce less income than anticipated if interest rates fall. As a result, changes in interest rates could cause us to incur losses in principal if we are forced to sell securities that have declined in market value or may result in lower than anticipated investment income.

We intend to manage our exposure to interest rate, market and credit risk in any investment portfolio with investment policies and procedures that limit such things as term, credit rating and the amount of credit exposure to any one issue, issuer and type of instrument. We have not used derivative financial instruments in any investment portfolio.

The impact on the fair market value of our cash equivalents and our earnings from a hypothetical 100 basis point adverse change in interest rates as of the end of fiscal 2017 would have had the effect of reducing our net income by an amount less than \$1.0 million. Our cash and cash equivalents have historically been held in accounts and instruments where the principal was not subject to interest rate risk. The sensitivity analysis was accomplished by estimating the impact of a 100 basis point increase in interest rates on our variable rate borrowings while assuming no increase in interest income on our cash and cash equivalents.

We have interest rate risk from a \$125.0 million revolving line of credit. Borrowings may be repaid and re-borrowed during the term of the credit agreement. The obligations are guaranteed by four of our subsidiaries. All amounts owed under the credit agreement are due and payable on November 20, 2019. At March 31, 2017, the outstanding principal balance under the credit agreement was \$72.6 million.

The credit agreement provides different interest rate alternatives under which we may borrow funds. We may elect to borrow based on LIBOR plus a margin or an alternative base rate plus a margin. The margin can range from 0.75% to 2.5%, depending on interest rate alternatives and on our leverage of liabilities to effective tangible net worth. The applicable interest rate as of March 31, 2017 was 2.85%. An unused commitment fee is also payable. It ranges from 0.25% to 0.625% annually, depending on leverage.

Revenues from our foreign subsidiaries were approximately 46.0% of total revenues in fiscal 2017. To the extent not U.S. dollar denominated, these revenues are primarily denominated in Euros and British pounds. Our risk to foreign currencies is partially offset by the natural hedge of manufacturing and selling goods in the local currency. Most of our principal foreign subsidiaries use their respective local currencies as their functional currency.

Although from time to time we enter into a limited number of foreign exchange forward or option contracts to help manage foreign currency exchange risk associated with certain of our operations, we do not generally hedge foreign currency exchange rates. We do not enter into these contracts for trading purposes and do not

expect gains or losses on these contracts to have a material impact on our financial results. At the year ended March 31, 2017, we did not have any outstanding derivative contracts.

A hypothetical 10% adverse fluctuation in the exchange rate between the Euro and the U.S. dollar and the exchange rate between the British pound and the U.S. dollar would have had the effect of reducing our net income as of the end of fiscal 2017 by less than \$4.0 million. Because of the operation of our principal foreign units in their own functional currencies, this sensitivity analysis was undertaken by examining the net income or loss of the foreign units incorporated into our statement of operations and testing the impact of the hypothetical change in exchange rates on such income or loss. The hypothetically derived net income or loss of the foreign units was then calculated with our statement of operations data to derive the hypothetical impact on our net income. Additionally, the impact of the hypothetical change in exchange rates on the balance sheets of our principal foreign units was examined and the hypothetical transaction effects, using normal accounting practices, were incorporated into the analysis.

It is likely that our future financial results could be directly affected by changes in foreign currency exchange rates. We will continue to face foreign currency exchange risks in the future. Therefore, our financial results could be directly affected by weak economic conditions in foreign markets. In addition, a strengthening of the U.S. dollar, the Euro or the British pound could make our products less competitive in foreign markets.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
IXYS Corporation
Milpitas, California

We have audited the accompanying consolidated balance sheets of IXYS Corporation (the “Company”) as of March 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended March 31, 2017. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IXYS Corporation at March 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), IXYS Corporation’s internal control over financial reporting as of March 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 12, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
June 12, 2017

IXYS CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31,	
	2017	2016
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$167,904	\$155,806
Restricted cash	1,330	277
Accounts receivable, net	41,167	38,440
Inventories	89,436	89,604
Prepaid expenses and other current assets	3,977	4,203
Total current assets	303,814	288,330
Property, plant and equipment, net	42,240	42,623
Acquired intangible assets	2,984	7,607
Goodwill	42,227	42,355
Deferred income taxes	24,739	28,024
Other assets	17,975	13,762
Total assets	\$433,979	\$422,701
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of loans payable	\$ 1,058	\$ 1,804
Accounts payable	11,409	11,416
Accrued expenses and other current liabilities	25,347	21,290
Total current liabilities	37,814	34,510
Long term loans, net of current portion	76,791	85,253
Pension liabilities	14,901	16,307
Other long term liabilities	6,618	7,336
Total liabilities	136,124	143,406
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized: 5,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.01 par value:		
Authorized: 80,000,000 shares; 38,326,329 issued and 31,912,021 outstanding at March 31, 2017 and 38,214,158 issued and 31,375,524 outstanding at March 31, 2016	383	382
Additional paid-in capital	217,355	214,045
Treasury stock, at cost: 6,414,308 common shares at March 31, 2017 and 6,838,634 common shares at March 31, 2016	(58,347)	(61,845)
Retained earnings	167,009	146,979
Accumulated other comprehensive income (loss)	(28,545)	(20,266)
Total stockholders' equity	297,855	279,295
Total liabilities and stockholders' equity	\$433,979	\$422,701

The accompanying notes are an integral part of these consolidated financial statements.

IXYS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2017	2016	2015
	(In thousands, except per share data)		
Net revenues	\$322,123	\$317,209	\$338,767
Cost of goods sold	216,541	217,451	236,802
Gross profit	105,582	99,758	101,965
Operating expenses:			
Research, development and engineering	30,538	29,986	26,667
Selling, general and administrative	41,733	38,384	41,810
Amortization of acquisition-related intangible assets	3,068	5,555	5,978
Impairment of acquisition-related intangible assets	1,391	—	—
Total operating expenses	76,730	73,925	74,455
Operating income	28,852	25,833	27,510
Other income (expense):			
Interest income	265	212	240
Interest expense	(2,545)	(1,641)	(1,397)
Other income (expense), net	2,328	(915)	4,077
Income before income tax provision	28,900	23,489	30,430
Provision for income tax	(7,552)	(8,748)	(6,690)
Net income	\$ 21,348	\$ 14,741	\$ 23,740
Net income per share:			
Basic	\$ 0.68	\$ 0.47	\$ 0.75
Diluted	\$ 0.66	\$ 0.46	\$ 0.74
Cash dividends per common share	\$ 0.040	\$ 0.155	\$ 0.135
Weighted average shares used in per share calculation:			
Basic	31,544	31,579	31,531
Diluted	32,248	32,381	32,239

The accompanying notes are an integral part of these consolidated financial statements.

IXYS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended March 31,		
	2017	2016	2015
	(In thousands)		
Net income	\$21,348	\$14,741	\$ 23,740
Foreign currency translation adjustments	(8,594)	2,938	(24,112)
Changes in market value of investments:			
Changes in unrealized gains (losses), net of income taxes of \$(82) in 2017, \$(231) in 2016 and \$(825) in 2015, respectively	(106)	(362)	(1,536)
Reclassification adjustment for net losses (gains) realized in net income, net of income taxes of \$(19) in 2017, \$182 in 2016 and \$655 in 2015, respectively	(31)	273	1,218
Net change in market value of investments	(137)	(89)	(318)
Changes in accumulated net actuarial income (loss):			
Changes in accumulated net actuarial income (loss), net of income taxes of \$100 in 2017, \$(634) in 2016 and \$(960) in 2015, respectively	196	(71)	(3,830)
Reclassification adjustment for net losses (gains) realized in net income, net of income taxes of \$131 in 2017, \$393 in 2016 and \$36 in 2015, respectively	256	44	143
Net changes in defined benefit plan accumulated net actuarial income (loss)	452	(27)	(3,687)
Other comprehensive income (loss)	(8,279)	2,822	(28,117)
Total comprehensive income (loss)	\$13,069	\$17,563	\$ (4,377)

The accompanying notes are an integral part of these consolidated financial statements.

IXYS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock and Additional Paid-In Capital	Treasury Shares	Treasury Amount	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares Amount					
Balances, March 31, 2014	38,017		\$206,670			\$270,632
Net income		6,663	\$(58,782)	\$117,715	\$ 5,029	23,740
Other comprehensive income (loss)				23,740	(28,117)	(28,117)
Stock-based compensation						2,867
Proceeds from sale of shares through employee equity incentive plans, related excess tax benefits and others	100					551
Re-issuance of treasury stock under stock compensation plans		(221)	1,949			551
Dividends				(58)		1,891
Balances, March 31, 2015	38,117		210,088	(4,263)		(4,263)
Net income		6,442	(56,833)	137,134	(23,088)	267,301
Other comprehensive income (loss)				14,741	2,822	14,741
Stock-based compensation						3,343
Proceeds from sale of shares through employee equity incentive plans, related excess tax benefits and others	97					996
Purchase of treasury stock		772	(8,352)			996
Re-issuance of treasury stock under stock compensation plans		(375)	3,340			(8,352)
Dividends				(4,896)		3,340
Balances, March 31, 2016	38,214		214,427		(20,266)	279,295
Net income		6,839	(61,845)	146,979		21,348
Other comprehensive income (loss)				21,348	(8,279)	(8,279)
Stock-based compensation						3,438
Proceeds from sale of shares through employee equity incentive plans, related excess tax benefits and others	112					96
Purchase of treasury stock		96	(1,213)			(1,213)
Re-issuance of treasury stock under stock compensation plans		(521)	4,711			4,651
Dividends				(1,258)		(1,258)
Balances, March 31, 2017	38,326		\$217,738	\$167,009	\$(28,545)	\$297,835

The accompanying notes are an integral part of these consolidated financial statements.

IXYS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 21,348	\$ 14,741	\$ 23,740
Adjustments to reconcile net income to net cash provided by operating activities, net of assets acquired and liabilities assumed:			
Depreciation and amortization	10,597	13,981	17,311
Provision for receivable allowances	10,854	6,795	8,935
Write-down of goodwill and other intangibles	1,391	—	—
Net change in inventory provision	2,172	1,576	2,852
Stock-based compensation	3,438	3,343	2,867
Loss (gain) on investments	(808)	605	1,785
Deferred income taxes	3,174	3,768	1,340
Foreign currency adjustments on intercompany amounts and other non-cash items	(173)	63	(5,020)
Changes in operating assets and liabilities, net of business acquired:			
Accounts receivable	(14,299)	(2,238)	(7,342)
Inventories	(5,527)	(7,702)	(2,203)
Prepaid expenses and other assets	162	(1,320)	5,931
Accounts payable	(529)	(2,173)	(2,646)
Accrued expenses and other current liabilities	3,577	(693)	2,058
Pension liabilities	(840)	(1,153)	(1,414)
Net cash provided by operating activities	<u>34,537</u>	<u>29,593</u>	<u>48,194</u>
Cash flows from investing activities:			
Purchase of businesses, net of cash and cash equivalents acquired and installment payments	—	(14,472)	(2,297)
Purchases of investments	(4,725)	(629)	(5,887)
Purchases of plant and equipment	(7,377)	(7,110)	(7,018)
Proceeds from sale of investments	810	26	54
Proceeds from sale of fixed assets	99	—	—
Net cash used in investing activities	<u>(11,193)</u>	<u>(22,185)</u>	<u>(15,148)</u>
Cash flows from financing activities:			
Principal payments on capital lease obligations	—	(472)	(2,414)
Repayments of loans and notes payable	(9,051)	(47,606)	(1,144)
Installment payments for business acquisition	—	—	(30,000)
Proceeds from loans	—	82,967	30,000
Purchases of treasury stock	(1,213)	(8,352)	—
Payments of cash dividends to stockholders	(1,258)	(4,896)	(4,263)
Proceeds from employee equity plans	4,524	4,336	2,692
Net cash provided by (used in) financing activities	<u>(6,998)</u>	<u>25,977</u>	<u>(5,129)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	<u>(3,195)</u>	<u>1,268</u>	<u>(5,262)</u>
Net increase in cash and cash equivalents	13,151	34,653	22,655
Cash and cash equivalents and restricted cash at beginning of the year(1)	<u>156,083</u>	<u>121,430</u>	<u>98,775</u>
Cash and cash equivalents and restricted cash at end of the year(2)	<u>\$169,234</u>	<u>\$156,083</u>	<u>\$121,430</u>
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	\$ 2,545	\$ 1,992	\$ 2,172
Cash paid during the period for income taxes	\$ 3,985	\$ 5,669	\$ 1,416

(1) Includes restricted cash of \$277,000, \$266,000 and \$337,000 for fiscal 2017, 2016 and 2015, respectively.

(2) Includes restricted cash of \$1.3 million, \$277,000 and \$266,000 for fiscal 2017, 2016 and 2015, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

We design, develop, manufacture and market power semiconductors, digital and analog integrated circuits, or ICs, and systems and radio frequency, or RF, power semiconductors.

Power semiconductors are used primarily in controlling energy in motor drives, power conversion including uninterruptible power supplies and switch mode power supplies and medical electronics. Our power semiconductors convert electricity at relatively high voltage and current levels to create efficient power as required by a specific application. Our target market includes segments of the power semiconductor market that require medium to high power semiconductors, with a particular emphasis on high power semiconductors. Our power semiconductors include power metal-oxide-silicon field-effect transistors, or MOSFETs, insulated-gate bipolar transistors, or IGBTs, thyristors and rectifiers, including fast-recovery epitaxial diodes, or FREDs. Our ICs include solid state relays, or SSRs, for telecommunications applications and power management and control ICs, such as current regulators, motion controllers, digital power modulators and drivers, and microcontrollers such as embedded flash microcontrollers and 8-bit microcontrollers. Our systems include laser diode drivers, high voltage pulse generators and modulators, and high power subsystems, sometimes known as stacks, that are principally based on our high power semiconductor devices.

We sell products in North America, Europe and the Middle East and Asia through an organization that includes direct sales personnel, independent representatives and distributors. We are headquartered in Northern California with principal operations in Massachusetts, the Netherlands, Germany, the Philippines and the United Kingdom, or UK. Each site has manufacturing, research and development and/or sales and distribution activities. We also make use of subcontract manufacturers for fabrication of wafers and for assembly and test operations. Our fiscal years end on March 31. References to any numerically identified year preceded by the word “fiscal” are references to the year ended or ending on March 31 of such numerically identified year.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of IXYS Corporation and our wholly-owned subsidiaries after elimination of all intercompany balances and transactions.

Foreign Currency Translation and Transaction

The local currency is considered to be the functional currency of some of our wholly-owned international subsidiaries. Among them, IXYS Semiconductor GmbH, or IXYS GmbH, utilizes the Euro as its functional currency, while IXYS UK Westcode Limited, or IXYS UK, utilizes the British pound sterling as its functional currency. For such subsidiaries, the assets and liabilities are translated at the exchange rate in effect at year-end and the revenues and expenses are translated at average rates during the year. Adjustments resulting from the translation of these accounts of these subsidiaries into U.S. dollars are included in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Foreign currency transaction gains and losses are included as a component of other income or expense. The functional currency is U.S. dollars for our other significant subsidiaries.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from our estimates. Areas where management uses subjective judgments include, but are not limited to, revenue reserves, inventory valuation, deferred income taxes and related valuation allowances, allocation of purchase price in business combinations, valuation of goodwill and identifiable intangible assets and asset impairment analysis.

Revenue Recognition

Revenue is recognized when there is persuasive evidence that an arrangement exists, when delivery has occurred, when the price to the buyer is fixed or determinable and when collectability of the receivable is reasonably assured. These elements are typically met when title to the products is passed to the buyer, which is generally when product is shipped to the customer with sales terms ex-works, or when product is delivered to the customer with sales terms delivered duty paid.

We sell to distributors and original equipment manufacturers. Revenues from distributors were approximately 58.7%, 56.7% and 55.6% in fiscal 2017, 2016 and 2015, respectively. Accounts receivable from distributors are recognized and inventory is relieved when title to inventories transfers, typically upon shipment from us, at which point we have a legally enforceable right to collection under normal payment terms. We provide some of our distributors with the following programs: stock rotation and ship and debit. Reserves for sales returns and allowances, including allowances for “ship and debit” transactions, are recorded at the time of shipment, and are based on historical levels of returns, current economic trends and changes in customer demand.

We state our revenues net of any taxes collected from customers that are required to be remitted to various government agencies. The amount of taxes collected from customers and payable to governmental entities is included on the balance sheet as part of “Accrued expenses and other current liabilities.”

Allowance for sales returns. We maintain an allowance for sales returns based on estimated product returns by our customers. We estimate our allowance for sales returns based on our historical return experience, known returns we have not received, current economic trends, changes in customer demand, and other assumptions. If we were to make different judgments or utilize different estimates, the amount and timing of our revenues could be materially different. Given that our revenues consist of a high volume of relatively similar products, to date our actual returns and allowances have not fluctuated significantly from period to period and our returns provisions have historically been reasonably accurate. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations.

Allowance for stock rotation. We also provide “stock rotation” to select distributors. The rotation allows distributors to return a percentage of the previous six months’ sales in exchange for orders of an equal or greater amount. In the fiscal years ended March 31, 2017, 2016 and 2015, approximately \$1,459,000, \$1,494,000 and \$1,741,000, respectively, of products were returned to us under the program. We establish the allowance for sales to distributors. The allowance, which is management’s best estimate of future returns, is based upon the historical experience of returns and inventory levels at the distributors. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations. Should distributors increase stock rotations beyond our estimates, these statements would be adversely affected.

Allowance for ship and debit. Ship and debit is a program designed to assist distributors in meeting competitive prices in the marketplace on sales to their end-customers. Ship and debit requires a request from the distributor for a pricing adjustment for a specific part for a customer sale to be shipped from the distributor’s stock. We have no obligation to accept this request. However, it is our historical practice to allow some distributors to obtain pricing adjustments for inventory held. We receive periodic statements regarding our products held by our distributors. Ship and debit authorizations may cover current and future distributor activity for a specific part for sale to a distributor’s customer. At the time we record sales to distributors, we provide an allowance for the estimated future distributor activity related to such sales since it is probable that such sales to distributors will result in ship and debit activity. The sales allowance requirement is based on sales during the period, credits issued to distributors, distributor inventory levels, historical trends, market conditions, pricing trends we see in our direct sales activity with original equipment manufacturers and other customers, and input from sales, marketing and other key management. We believe that the analysis of these inputs enables us to make reliable estimates of future credits under the ship and debit program. This analysis requires the exercise of significant judgments. Our actual results to date have approximated our estimates. At the time the distributor ships the part from stock, the distributor debits us for the authorized pricing adjustment. This allowance is included as part of “Accounts receivable, net” on the balance sheet and as a reduction of revenues in the statement of operations. If competitive pricing were to decrease sharply and unexpectedly, our estimates might be insufficient, which could significantly adversely affect our operating results.

Additions to the ship and debit allowance are estimates of the amount of expected future ship and debit activity related to sales during the period. Additions to the allowance reduce revenues and gross profit in the period. The following table sets forth the beginning and ending balances of, additions to, and deductions from, our allowance for ship and debit during the three years ended March 31, 2017 (in thousands):

Balance March 31, 2014	\$ 1,071
Additions	5,765
Deductions	<u>(5,777)</u>
Balance March 31, 2015	1,059
Additions	4,479
Deductions	<u>(4,672)</u>
Balance March 31, 2016	866
Additions	7,363
Deductions	<u>(6,680)</u>
Balance March 31, 2017	<u>\$ 1,549</u>

Trade accounts receivable and allowance for doubtful accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in the existing accounts receivable. We determine the allowance based on the aging of our accounts receivable, the financial condition of our customers and their payment history, our historical write-off experience and other assumptions. Past due balances and other specified accounts as necessary are reviewed individually. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual write-offs may be in excess of the recorded allowance. This allowance is reported on the balance sheet as part of “Accounts receivable, net” and is included on the statement of operations as part of selling, general and administrative expenses, or SG&A expenses.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents include investments in commercial paper and money market accounts at banks.

Restricted Cash

Restricted cash balances at March 31, 2017 and March 31, 2016 were \$1.3 million and \$277,000, respectively. At both dates, restricted cash balances included funds segregated for pension payments in Germany. Restricted cash as of March 31, 2017 also included a security deposit of €1.0 million, or approximately \$1.1 million, made in relation to a loan with IKB Deutsche Industriebank, or IKB, during fiscal 2017. The security deposit will mature on December 29, 2017, so long as compliance occurs through that date.

Inventories

Inventories are recorded at the lower of standard cost, which approximates actual cost on a first-in-first-out basis, or market value. Our accounting for inventory costing is based on the applicable expenditure incurred, directly or indirectly, in bringing the inventory to its existing condition. Such expenditures include acquisition costs, production costs and other costs incurred to bring the inventory to its use. As it is impractical to track inventory from the time of purchase to the time of sale for the purpose of specifically identifying inventory cost, our inventory is, therefore, valued based on a standard cost, given that the materials purchased are identical and interchangeable at various production processes. We review our standard costs on an as-needed basis but in any event at least once a year, and update them as appropriate to approximate actual costs. The authoritative guidance provided by Financial Accounting Standards Board, or FASB, requires certain abnormal expenditures to be recognized as expenses in the current period instead of capitalized in inventory. It also requires that the amount of fixed production overhead allocated to inventory be based on the normal capacity of the production facilities.

We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. The value of our inventories is dependent on our estimate of future demand as it relates to historical sales. If our projected demand is overestimated, we may be required to reduce the valuation of our inventories below cost. We regularly review inventory quantities on hand and record an estimated provision for excess inventory based primarily on our historical sales and expectations for future use. We also recognize a reserve based on known technological obsolescence, when appropriate. Actual demand and market conditions may be different from those projected by our management. This could have a material effect on our operating results and financial position. If we were to make different judgments or utilize different estimates, the amount and timing of our write-down of inventories could be materially different.

Excess inventory frequently remains saleable. When excess inventory is sold, it yields a gross profit margin of up to 100%. Sales of excess inventory have the effect of increasing the gross profit margin beyond that which would otherwise occur, because of previous write-downs. Once we have written down inventory below cost, we do not write it up when it is subsequently utilized, sold or scrapped. We do not physically segregate excess inventory nor do we assign unique tracking numbers to it in our accounting systems. Consequently, we cannot isolate the sales prices of excess inventory from the sales prices of non-excess inventory. Therefore, we are unable to report the amount of gross profit resulting from the sale of excess inventory or quantify the favorable impact of such gross profit on our gross profit margin.

The following table provides information on our excess and obsolete inventory reserve charged against inventory at cost (in thousands):

Balance at March 31, 2014	\$24,304
Utilization or sale	(1,637)
Scrap	(2,901)
Additional provision	4,487
Foreign currency translation adjustments	<u>(1,500)</u>
Balance at March 31, 2015	22,753
Utilization or sale	(2,455)
Scrap	(3,217)
Additional provision	4,125
Foreign currency translation adjustments	<u>174</u>
Balance at March 31, 2016	21,380
Utilization or sale	(3,813)
Scrap	(3,682)
Additional provision	5,838
Foreign currency translation adjustments	<u>(425)</u>
Balance at March 31, 2017	<u>\$19,298</u>

The practical efficiencies of wafer fabrication require the manufacture of semiconductor wafers in minimum lot sizes. Often, when manufactured, we do not know whether or when all the semiconductors resulting from a lot of wafers will sell. With more than 10,000 different part numbers for semiconductors, excess inventory resulting from the manufacture of some of those semiconductors will be continual and ordinary. Because the cost of storage is minimal when compared to the potential value and because our products do not quickly become obsolete, we expect to hold excess inventory for potential future sale for years. Consequently, we have no set time line for the utilization, sale or scrapping of excess inventory.

In addition, our inventory is also being written down to the lower of cost or market. We review our inventory listing on a quarterly basis for an indication of losses being sustained for costs that exceed selling prices less direct costs to sell. When it is evident that our selling price is lower than current cost, inventory is marked down accordingly. At March 31, 2017 and 2016, our lower of cost or market reserves were \$384,000 and \$409,000, respectively.

Furthermore, we perform an annual inventory count or periodic cycle counts for specific parts that have a high turnover. We also periodically identify any inventory that is no longer usable and write it off.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 2 to 8 years for equipment and 24 years to 50 years for property and plant. Upon disposal, the assets and related accumulated depreciation are removed from our accounts and the resulting gains or losses are reflected in the statements of operations. Repairs and maintenance costs are charged to expense. Depreciation of leasehold improvements is provided on the straight-line method over the shorter of the estimated useful life or the term of the lease.

The authoritative guidance provided by FASB requires evaluating the recoverability of the carrying amount of our property, plant and equipment, net whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the forecasted undiscounted cash flows derived for the operation to which the assets relate are less than the carrying amount including associated intangible assets of the operation. If the operation is determined to be unable to recover the carrying amount of its assets, then impairment loss is recognized by reducing the carrying amount of the long-lived asset group on a pro-rata basis using the relative carrying amounts of those assets. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted expected cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which we operate and the resulting assumptions used to estimate future cash flows affect the outcome of these impairment tests.

Our facility in Lampertheim, Germany serves as collateral for our borrowings from IKB. See Note 8, "Borrowing Arrangements" for more details.

Treasury Stock

We account for treasury stock using the cost method. Costs include fees charged in connection with acquiring treasury stock.

Other Assets

Other assets include marketable equity securities classified as available-for-sale, long term equity investments accounted for under the equity method and investments accounted for under the cost method. Investments designated as available-for-sale are reported at fair value with the unrealized gains and losses, net of tax, recorded in other comprehensive income (loss). Realized gains and losses (calculated as proceeds less specifically identified costs) and declines in value of these investments judged by management to be other than temporary, if any, are included in other income (expense), net.

We have a 45% equity interest in Powersem GmbH, or Powersem, a semiconductor manufacturer based in Germany, and an approximately 20% equity interest in EB Tech Ltd., or EB Tech, a radiation services provider based in South Korea. In fiscal 2015, we acquired approximately a 24% equity interest in Automated Technology, Inc., or ATEC, an assembly and test services provider in the Philippines. These investments are accounted for using the equity method. In fiscal 2017, we recognized income of \$809,000 on these investments. In fiscal 2016 and 2015, we recognized losses of \$120,000 and \$7,000 on these investments, respectively.

Investments which do not have readily determinable fair values and are not required to be accounted for under the equity method are accounted for using the cost method. As of March 31, 2017, we have \$3.1 million of cost method investments. We did not hold any cost method investments as of March 31, 2016.

Investments accounted for using the equity method and cost method are subject to a review for impairment if, and when, events and circumstances indicate that the fair value of our investment would be less than the carrying value.

Refer to Note 5, "Other Assets" and Note 13, "Related Party Transactions" for further information regarding the investment balances and the related transactions of those long term investments.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired. The costs of acquired intangible assets are recorded at fair value at acquisition. Intangible assets with finite lives are amortized using the straight-line method or accelerated method over their estimated useful lives and evaluated for impairment in accordance with the authoritative guidance provided by FASB.

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment charges during the quarter ending March 31, or more frequently if events and circumstances indicate that the asset might be impaired, in accordance with the authoritative guidance provided by FASB. We first assess qualitative factors to determine whether it is necessary to perform the two-step fair value-based impairment test described below. If we believe that, as a result of the qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

Under the quantitative approach effective prior to January 2017, there were two steps in the determination of the impairment of goodwill. The first step compared the carrying amount of the net assets to the fair value of the reporting unit. The second step, if necessary, recognized an impairment loss to the extent the carrying value of the reporting unit's net assets exceeds the implied fair value of goodwill. An impairment loss was recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. In January 2017, FASB issued amended guidance which eliminated the second step in goodwill impairment testing. Under the new guidance, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. The new guidance no longer requires us to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. We adopted the new guidance on a prospective basis commencing with the quarter ended March 31, 2017. We operate our business as one reporting unit.

We assess the recoverability of the finite-lived intangible assets by examining the occurrences of certain events or changes of circumstances that indicate that the carrying amounts may not be recoverable. After our initial assessment, if it is necessary, we perform the impairment test by determining whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying values. Impairment losses, if any, are measured as the amount by which the carrying values of the assets exceed their fair value and are recognized in operating results. If a useful life is determined to be shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life.

During the quarter ended December 31, 2016, based on our assessment, the intangible assets resulting from the RadioPulse acquisition were determined to be fully impaired and an impairment charge of \$1.4 million was recognized. See Note 7, "Goodwill and Intangible Assets" for further discussion of impairment analysis of goodwill and intangible assets and related charges recorded.

Defined Benefit Plans

We maintain pension plans covering certain of our employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of our pension plans. The authoritative guidance provided by FASB requires us to recognize the funded status of our defined benefit pension and post-retirement benefit plans in our consolidated balance sheets, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. See Note 9, "Pension Plans" for further information.

Fair Value of Financial Instruments

The assessment of fair value for our financial instruments is based on the authoritative guidance provided by FASB in connection with fair value measurements. It defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

Carrying amounts of some of our financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate fair value due to their short maturities. Based on borrowing rates currently available to us for loans with similar terms, the carrying value of notes payable to banks and loans payable approximate fair value and represent level 2 valuations.

Advertising Expense

We expense advertising as the costs are incurred. Advertising expense for the years ended March 31, 2017, 2016 and 2015 was \$411,000, \$433,000 and \$437,000, respectively. Advertising expense is included in “Selling, general and administrative expenses” on our consolidated statements of operations.

Research and Development Expense

Research and development costs are charged to operations as incurred.

Income Taxes

Our provision for income taxes is comprised of our current tax liability and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is required to reduce the deferred tax assets to the amount that management estimates is more likely than not to be realized. In determining the amount of the valuation allowance, we consider income over recent years, estimated future taxable income, feasible tax planning strategies and other factors, in each taxing jurisdiction in which we operate. If we determine that it is more likely than not that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that it is more likely than not that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released, which will have the effect of reducing income tax expense. Significant management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish or increase an additional valuation allowance that could materially impact our financial position and results of operations. Our ability to utilize our deferred tax assets and the continuing need for related valuation allowances are monitored on an ongoing basis. See Note 16, “Income Taxes” for further discussion regarding income taxes.

Other Income (Expense)

Other income and expense primarily consists of gains and losses on foreign currency transactions and interest income and expense, together with our share of income or loss from investments accounted for on the equity method and other than temporary impairment charges on available-for-sale securities.

Indemnification

Product guarantees and warranties have not historically proved to be material. On occasion, we provide limited indemnification to customers against intellectual property infringement claims related to our products. To date, we have not experienced significant activity or claims related to such indemnifications. We also provide in the normal course of business indemnification to our officers, directors and selected parties. We are unable to estimate the potential future liability, if any. Therefore, no liability for these indemnification agreements has been recorded as of March 31, 2017 and 2016.

Legal Contingencies

We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. The authoritative guidance provided by FASB requires that an estimated loss from a loss contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is

required if there is at least a reasonable possibility that a material loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position, results of operations or cash flows.

Net Income (Loss) per Share

Basic net income (loss) available per common share is computed using net income (loss) and the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed using net income (loss) and the weighted average number of common shares outstanding, assuming dilution, which includes potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of stock options and assumed vesting of restricted stock units using the treasury stock method. See Note 12, "Computation of Earnings per Share."

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) represents foreign currency translation adjustments, unrealized gain or loss on equity investments classified as "available-for-sale" and minimum pension liability, net of tax. See Note 11, "Accumulated Other Comprehensive Income (Loss)."

Concentration and Business Risks

Dependence on Third Parties for Wafer Fabrication and Assembly

Measured in dollars, in fiscal 2017 we manufactured approximately 52.6% of our wafers, an integral component of our products, in our facilities in Germany, the UK, Massachusetts and California. We relied on third party suppliers to provide the remaining 47.4%. There can be no assurance that material disruptions in supply will not occur in the future. In such event, we may have to identify and secure additional foundry capacity and may be unable to identify or secure sufficient foundry capacity to meet demand. Even if such capacity is available from another manufacturer, the qualification process could take six months or longer. If we were unable to qualify alternative manufacturing sources for existing or new products in a timely manner or if such sources were unable to produce semiconductor devices with acceptable manufacturing yields and at acceptable prices, our business, financial condition and results of operations would be materially and adversely affected.

Dependence on Suppliers

We purchase silicon substrates from a limited number of vendors, most of whom we do not have long term supply agreements with. Any of these suppliers could terminate their relationship with us at any time. Our reliance on a limited number of suppliers involves several risks, including potential inability to obtain an adequate supply of silicon substrates and reduced control over the price, timely delivery, reliability and quality of the silicon substrates. There can be no assurance that problems will not occur in the future with suppliers.

Employees Covered by Collective Bargaining Arrangements

Approximately 56.3% and 94.9% of our employees in the UK and Germany, respectively, are covered by collective bargaining arrangements.

Concentration of Credit Risk

Financial instruments that potentially subject us to credit risk comprise principally cash and cash equivalents and trade accounts receivable. We invest our excess cash in accordance with our investment policy that has been approved by the Board of Directors and is reviewed periodically by management to minimize credit risk. Regarding cash and cash equivalents, the policy authorizes the investment of excess cash in deposit accounts, certificates of deposit, bankers' acceptances, commercial paper rated AA or better and other money market accounts and instruments of similar liquidity and credit quality.

We invest our excess cash primarily in foreign and domestic banks in short term time deposit and money market accounts. Maturities are generally three months or less. Our non-interest bearing domestic cash balances

exceed federally insured limits. Additionally, we may invest in commercial paper with financial institutions that management believes to be creditworthy. These securities mature within ninety days or less and bear minimal credit risk. We have not experienced any losses on such investments.

We sell our products primarily to distributors and original equipment manufacturers. We perform ongoing credit evaluations of our customers and generally do not require collateral. An allowance for potential credit losses is maintained by us.

See Note 15, “Segment and Geographic Information” for information related to customers that owe us more than 10% of our total accounts receivable.

We continually monitor the credit risk in our portfolio and mitigate our credit risk exposures in accordance with the policies approved by our Board of Directors.

Stock-Based Compensation Plans

We have employee equity incentive plans and an employee stock purchase plan, which are described more fully in Note 10, “Employee Equity Incentive Plans.” The authoritative guidance provided by FASB requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award and shares expected to vest. We use the straight-line attribution method to recognize share-based compensation costs over the service period of the award.

Recent Accounting Pronouncements and Accounting Changes

In May 2014, FASB issued a new standard on the recognition of revenue from contracts with customers, which includes a single set of rules and criteria for revenue recognition to be used across all industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when or as the entity satisfies a performance obligation. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods during the annual period. Early adoption is permitted for annual periods commencing after December 15, 2016. Two different transition methods are available: full retrospective method and a modified retrospective approach.

We do not plan to adopt this guidance early. We are currently evaluating the potential impact of this standard on our financial position and results of operations, as well as our selected transition method. Based on our preliminary assessment, we believe the new standard will not have a material impact on our financial position and results of operations, as our revenue is primarily generated from the sale of finished products to customers. Sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. We do not expect to change the manner or timing of recognizing revenue on a majority of our revenue transactions.

In July 2015, FASB issued an amendment to modify the inventory measurement guidance in Topic 330, *Inventory*, for inventory that is measured using the methods other than last-in, first-out, or LIFO, and the retail inventory method. It requires that an entity measure inventory within the scope of this update at the lower of cost and net realizable value. It eliminated the guidance in Topic 330 that required a reporting entity measuring inventory at the lower of cost or market to consider the replacement cost of inventory and the net realizable value of inventory less an approximately normal profit margin along with net realizable value in determining the market value. The guidance will be effective for annual reporting periods beginning after December 15, 2016, and interim periods during the annual period. The new standard is required to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We do not expect this change to have a significant impact on our consolidated financial statements.

In January 2016, FASB issued authoritative guidance that modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under Accounting Standards Codification, *Fair Value Measurements*, or ASC 820, and as such these investments may be measured at cost. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently evaluating the impact of this standard on our consolidated financial statements.

In February 2016, FASB issued amended guidance for lease arrangements, which requires lessees to recognize the following for all leases with terms longer than 12 months: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, or ROU asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendment is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

In March 2016, FASB issued amended guidance which simplifies several aspects of the accounting for employee share-based payment awards, including forfeitures, employer tax withholding on share-based compensation and excess tax benefits or deficiencies. The amended guidance also clarifies the statement of cash flows presentation for share-based awards. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

In August 2016, FASB issued amended guidance that provides clarification on cash flow classification related to eight specific issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, distributions received from equity method investees and proceeds from the settlement of insurance claims. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. Early adoption is permitted. The amended guidance should be applied retrospectively to all periods presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We do not expect this change to have a significant impact on our consolidated financial statements.

In October 2016, FASB issued amended guidance which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted in the first interim period only. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are in the process of evaluating the impacts of the adoption of this amendment.

In November 2016, FASB issued amended guidance which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and is to be applied on a retrospective basis. Early adoption is permitted. We have adopted the guidance on a retrospective basis from the quarter ended December 31, 2016. Based on the guidance, the beginning and ending balance of cash and cash equivalents for the respective periods in our audited condensed consolidated statements of cash flow included restricted cash.

In January 2017, FASB issued amended guidance which narrows the existing definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The definition of a business affects areas of accounting such as acquisitions, disposals and goodwill. The revised definition of a business under this guidance is expected to reduce the number of transactions that are accounted for as business combinations. The guidance is effective on a prospective basis for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The impact on our consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

In January 2017, FASB issued amended guidance which eliminates the second step in goodwill impairment testing in which goodwill impairment is determined by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Under the amended standard, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. The guidance is effective on a prospective basis for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have adopted the guidance on a prospective basis commencing with the quarter ended March 31, 2017. The adoption did not have any impact on our consolidated financial statements for the quarter ended March 31, 2017.

3. Business Combinations

RadioPulse, Inc.

On May 1, 2015, we acquired RadioPulse, Inc., or RadioPulse, for a total consideration of \$15.7 million. Based in South Korea, RadioPulse is a fabless semiconductor company that develops, manufactures and sells wireless network technology solutions based on the ZigBee® protocol, which combines microcontrollers and radio frequency devices. RadioPulse's solutions are designed to enable a broad range of power-sensitive applications in the industrial, medical, consumer, smart grid and Internet of Things, or IoT, markets. RadioPulse offers a product portfolio complementary to our product lines. The consideration included cash consideration paid at closing of \$14.7 million and \$1.0 million related to an adjustment to eliminate debt owed to us for funds advanced prior to closing. The acquisition also included potential earnout payments aggregating up to \$6.0 million based on certain financial thresholds related to net revenues, gross profit and net income in calendar years 2015, 2016 and 2017. Based on our valuation, the fair value of the liability for the earnout payment at the acquisition date was estimated to be nil. The fair value of the liability for the earnout payment has not changed since the initial valuation. In connection with the acquisition, we incurred and expensed \$248,000 in legal and consulting costs and \$249,000 in acquisition-related compensation costs during fiscal 2016.

The following table summarizes the values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Purchase Consideration Allocation
Cash and cash equivalents and restricted cash	\$ 196
Accounts receivable	1,497
Inventories	534
Property, plant and equipment	24
Prepaid expenses and other current assets	547
Identifiable intangible assets	2,867
Short-term borrowings	(2,354)
Accounts payable	(614)
Accruals and other liabilities	<u>(1,926)</u>
Total identifiable net liabilities	771
Goodwill	<u>14,887</u>
Total purchase consideration	<u>\$15,658</u>

Identified intangible assets resulting from the RadioPulse acquisition consisted of the following (in thousands):

	<u>Fair Value</u> (In thousands)	<u>Amortization Method</u>	<u>Estimated Useful Life</u> (In months)
Developed intellectual property	\$1,005	Accelerated	60
In-process research and development expenses(1)	1,188	Straight-line	60
Customer relationships	500	Accelerated	36
Contract backlog	<u>174</u>	Straight-line	6
Total	<u>\$2,867</u>		

(1) Amortization started in the quarter ended December 31, 2016 upon the completion of the research and development activities of the corresponding projects.

The value reflected in the table represents the purchase price allocation. The valuation of the acquired intangibles was classified as a level 3 measurement under the fair value measurement guidance because the valuation was based on significant unobservable inputs and involved management judgment and assumptions about market participants and pricing. We did not recognize any liability with respect to the contingent consideration based upon our analysis.

In determining the fair value of the acquired intangible assets, we determined the appropriate unit of measure, the exit market and the highest and best use for the assets. The income approach was used to estimate the fair value. The income approach indicates the fair value of an asset based on the value of the cash flows that the asset can be expected to generate in the future through a discounted cash flow method. The income approach was used to determine the fair values of developed intellectual property, in-process research and development expenses, contract backlog and customer relationships. The goodwill arising from the acquisition was largely attributable to the synergies expected to be realized after our acquisition and integration of RadioPulse and to the workforce acquired in the transaction. The goodwill is not deductible for tax purposes.

During the quarter ended December 31, 2016, the intangible assets resulting from the RadioPulse acquisition were determined to be fully impaired and an impairment charge of \$1.4 million was recognized. See Note 7, "Goodwill and Intangible Assets" for further discussion of the impairment analysis of goodwill and intangible assets and the related charges recorded.

RadioPulse contributed net revenues of \$4.1 million, from the date of purchase, May 1, 2015 to our consolidated statements of operations for the fiscal year ended March 31, 2016. The net loss of RadioPulse included in our operating results for the year ended March 31, 2016 was \$3.6 million, based on the purchase consideration valuation. The results of operations and financial position of RadioPulse were immaterial compared to our financial statements and therefore pro-forma financial statements have not been separately presented.

Other Acquisition

In the quarter ended June 30, 2014, we completed a business acquisition for a cash consideration of \$2.3 million, net of cash acquired of approximately \$204,000. The acquisition resulted in a goodwill of \$2.8 million and we assumed debt of \$723,000. At March 31, 2017, this goodwill balance reflected a cumulative reduction of \$605,000 caused by changes in the foreign exchange translation rate. This acquisition was not significant to our consolidated financial statements.

4. Fair Value

We account for certain assets and liabilities at fair value. In determining fair value, we consider its principal or most advantageous market and the assumptions that market participants would use when pricing, such as inherent risk, restrictions on sale and risk of non-performance. The fair value hierarchy is based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data

obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 — Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

Fair Value Measurements on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of March 31, 2017 and 2016 (in thousands):

<u>Description</u>	<u>March 31, 2017(1)</u>			<u>March 31, 2016(1)</u>		
	<u>Total</u>	<u>Fair Value Measured at Reporting Date Using</u>		<u>Total</u>	<u>Fair Value Measured at Reporting Date Using</u>	
		<u>Level 1</u>	<u>Level 2</u>		<u>Level 1</u>	<u>Level 2</u>
Money market funds(2)	\$90,752	\$90,752	\$ —	\$115,974	\$115,974	\$ —
Marketable equity securities(3)	1,771	1,771	—	1,749	1,749	—
Auction rate preferred securities(3)	350	—	350	350	—	350
Total assets measured at fair value	<u>\$92,873</u>	<u>\$92,523</u>	<u>\$350</u>	<u>\$118,073</u>	<u>\$117,723</u>	<u>\$350</u>

(1) We did not have any recurring fair value measurements of assets or liabilities whose fair value was measured using significant unobservable inputs.

(2) Included in “Cash and cash equivalents” on our audited consolidated balance sheets.

(3) Included in “Other assets” on our audited consolidated balance sheets.

We measure our marketable equity securities and derivative contracts at fair value. Marketable equity securities are valued using the quoted market prices and are therefore classified as Level 1 estimates. All of the marketable equity securities are subject to a periodic impairment review. We review any impairment to determine whether it is other than temporarily impaired. This review is based on factors such as length of time of impairment, extent to which the fair value is below the cost basis, financial conditions of the issuer of the security, our expectations of future recoveries and our ability and intent to hold or sell the securities. Based on our review, we recognized other than temporary impairment losses of \$151,000, \$454,000 and \$1.9 million in marketable equity securities during fiscal 2017, 2016 and 2015, respectively. See Note 5, “Other Assets” for further information on the unrealized losses included in marketable securities.

From time to time, we use derivative instruments to manage exposure to changes in interest rates and currency exchange rates, and the fair values of these instruments are recorded on the balance sheets. We have elected not to designate these instruments as accounting hedges. The changes in the fair value of these instruments are recorded in the current period’s statement of operations and are included in other income (expense), net. All of our derivative instruments are traded on over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value using prices obtained from the counterparties with whom we have traded. The counterparties price the derivatives based on models that use primarily market observable inputs, such as yield curves and option volatilities. Accordingly, we classify these derivatives as Level 2. We held no derivative instruments at March 31, 2017 and March 31, 2016.

Auction rate preferred securities, or ARPS, are stated at par value based upon observable inputs, including historical redemptions received from the ARPS issuers, and are therefore categorized as Level 2 estimates.

Cash and cash equivalents are recognized and measured at fair value in our consolidated financial statements. Accounts receivable and prepaid expenses and other current assets are financial assets with carrying values that approximate fair value. Accounts payable and accrued expenses and other current liabilities are financial liabilities with carrying values that approximate fair value.

Our indebtedness for borrowed money and our installment payment obligations approximated fair value, as the interest rates either adjusted according to the market rates or the interest rates approximated the market rates. The estimated fair value of these items was approximately \$77.8 million and \$87.1 million at March 31, 2017 and March 31, 2016, respectively.

Our equity method investments, cost method investments and non-financial assets, such as acquired intangible assets and property, plant and equipment, are recorded at fair value only if impairment is recognized. No impairment losses on the investments accounted for under the equity method or the cost method were recognized as of March 31, 2017, as there have not been any events or changes in circumstances that we believe would have had a significant adverse effect on the fair value of those investments.

5. Other Assets

Other assets consisted of the following (in thousands):

	March 31,	
	2017	2016
Marketable equity securities	\$ 1,771	\$ 1,749
Auction rate preferred securities	350	350
Long-term equity method investments	11,589	10,977
Other items, including cost method investments	4,265	686
Total	<u>\$17,975</u>	<u>\$13,762</u>

Available-for-Sale Investments

Marketable equity securities and auction rate preferred securities are designated as available-for-sale that are reported at fair value with unrealized gains and losses, net of income taxes, recorded in other comprehensive income (loss). Realized gains and losses (calculated as proceeds less specifically identified costs) and declines in value of these investments judged by management to be other than temporary, if any, are included in other income (expense), net. Available-for-sale investment securities have been stated at their fair value as of March 31, 2017 and include an unrealized loss, net of tax benefits, of \$219,000 at March 31, 2017, and an unrealized loss, net of tax benefits, of \$82,000 at March 31, 2016. See Note 4, "Fair Value" for further information on the fair value measurements and other than temporary impairment losses recognized.

Available-for-sale investments as of March 31, 2017 and 2016 were as follows (in thousands):

	Fiscal Year 2017				Fiscal Year 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		Marketable equity securities	\$2,116	\$254		\$(599)	\$1,771	\$1,875
Auction rate preferred securities . . .	\$ 350	\$ —	\$ —	\$ 350	\$ 350	\$ —	\$ —	\$ 350

The available-for-sale investments that were in a continuous unrealized loss position as of March 31, 2017 and March 31, 2016, aggregated by length of time that individual securities have been in a continuous loss position, were as follows (in thousands):

<u>Period</u>	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
March 31, 2017	\$552	\$469	\$ 47	\$263	\$599	\$ 732
March 31, 2016	\$ 29	\$581	\$143	\$932	\$172	\$1,513

Gross unrealized losses on our available-for-sale portfolio were immaterial to the consolidated balance sheets at March 31, 2017 and March 31, 2016.

During fiscal 2017, we recognized a gain of approximately \$201,000 on the sale of available-for-sale investment securities. In respect of those securities, there was an unrealized loss of \$28,000 included in accumulated other comprehensive income as of March 31, 2016.

Equity Method Investments

We have equity interests in Powersem, a semiconductor manufacturer based in Germany, EB Tech, a radiation services provider based in South Korea and ATEC, an assembly and test services provider in the Philippines. All of these companies are private limited companies. These investments are accounted for using the equity method and are included in “Other assets” on our audited consolidated balance sheet. As of March 31, 2017, we recorded an immaterial amount of our proportionate share of the affiliates’ gains and losses under the equity method of accounting. The carrying values of our investments in Powersem, EB Tech and ATEC at March 31, 2017 were \$2.5 million, \$2.6 million and \$6.5 million, respectively. The carrying values of our investments in Powersem, EB Tech and ATEC at March 31, 2016 were \$2.5 million, \$2.7 million and \$5.7 million, respectively.

We acquired approximately 24% of the outstanding common shares of ATEC for a purchase price of \$5.9 million on December 12, 2014. The investment was initially recorded at cost. Subsequent periodic adjustments to cost are made to record our share in the operating results of ATEC, cash contributions and distributions and the differences between the fair value and carrying cost of assets acquired and liabilities assumed. In fiscal 2017, we recognized gain of \$765,000 on our investment in ATEC. In fiscal 2016 and 2015, we recognized losses of \$9,000 and \$140,000, respectively, on our investment in ATEC.

See Note 2, “Summary of Significant Accounting Policies” and Note 13, “Related Party Transactions” for further information on these investments.

Cost Method Investments

During fiscal 2017, we made investments in privately-held companies. Those investments are accounted for under the cost method as they do not qualify for the fair value or another accounting method. At March 31, 2017, the carrying value of those investments was \$3.1 million. We do not estimate the fair value of those cost method investments because determining the fair value is not practicable.

6. Balance Sheet Details

Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Accounts receivable, gross	\$45,856	\$41,219
Allowances	(4,689)	(2,779)
Accounts receivable, net	<u>\$41,167</u>	<u>\$38,440</u>

Allowances Movement (in thousands):

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Utilization</u>	<u>Translation Adjustments</u>	<u>Balance at End of Year</u>
Allowances for accounts receivable and for doubtful accounts:					
Year ended March 31, 2017	\$2,779	\$10,608	\$(8,657)	\$ (41)	\$4,689
Year ended March 31, 2016	\$2,768	\$ 6,795	\$(6,799)	\$ 15	\$2,779
Year ended March 31, 2015	\$3,013	\$ 8,935	\$(9,004)	\$(176)	\$2,768

Inventories

Inventories consisted of the following (in thousands):

	March 31,	
	2017	2016
Raw materials	\$17,920	\$18,269
Work in process	45,634	41,549
Finished goods	25,882	29,786
Total	<u>\$89,436</u>	<u>\$89,604</u>

Property, Plant and Equipment

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

	March 31,	
	2017	2016
Property and plant (useful life of 24 years to 50 years)	\$ 38,195	\$ 35,290
Equipment owned (useful life of 2 to 8 years)	137,105	139,318
Leasehold improvements (useful life of up to 40 years)	1,064	1,304
Property, plant and equipment, gross	176,364	175,912
Accumulated depreciation	(134,124)	(133,289)
Property, plant and equipment, net	<u>\$ 42,240</u>	<u>\$ 42,623</u>

Depreciation expense for fiscal years ended March 31, 2017, 2016 and 2015 amounted to \$7.5 million, \$8.4 million and \$11.3 million, respectively.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	March 31,	
	2017	2016
Uninvoiced goods and services	\$12,703	\$ 8,824
Compensation and benefits	6,707	7,540
Income taxes	3,521	2,066
Commissions, royalties and other	2,416	2,860
Total	<u>\$25,347</u>	<u>\$21,290</u>

7. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in connection with our acquisitions. In May 2015, we acquired RadioPulse and recorded \$14.9 million in goodwill. The goodwill balance as of March 31, 2017 and 2016 reflected changes in the foreign exchange translation rate.

The changes in the carrying amount of goodwill for the years ended March 31, 2017 and 2016 were as follows (in thousands):

	March 31,	
	2017	2016
Goodwill	\$ 56,024	\$ 41,137
Accumulated impairment losses	(13,192)	(13,192)
Accumulated currency translation adjustment	(477)	(570)
Net goodwill at beginning of year	42,355	27,375
Goodwill acquired in acquisition	—	14,887
Currency translation adjustment	(128)	93
Net goodwill at end of year	<u>\$ 42,227</u>	<u>\$ 42,355</u>

The accumulated impairment losses as of March 31, 2017 and March 31, 2016 were \$13.2 million.

Identifiable Intangible Assets

Identified intangible assets consisted of the following as of March 31, 2017 (in thousands):

	Gross Intangible Assets	Accumulated Impairment	Accumulated Amortization	Net Intangible Assets
Developed intellectual property	\$17,309	\$ 265	\$14,168	\$2,876
Customer relationships	13,520	123	13,397	—
In-process intellectual property	1,188	1,003	185	—
Contract backlog	7,329	—	7,329	—
Other intangible assets	1,591	—	1,483	108
Total identifiable intangible assets	<u>\$40,937</u>	<u>\$1,391</u>	<u>\$36,562</u>	<u>\$2,984</u>

Identified intangible assets consisted of the following as of March 31, 2016 (in thousands):

	Gross Intangible Assets	Accumulated Impairment	Accumulated Amortization	Net Intangible Assets
Developed intellectual property	\$17,309	\$ —	\$11,639	\$5,670
Customer relationships	13,520	—	12,961	559
In-process intellectual property	1,188	—	—	1,188
Contract backlog	7,329	—	7,329	—
Other intangible assets	1,599	—	1,409	190
Total identifiable intangible assets	<u>\$40,945</u>	<u>\$ —</u>	<u>\$33,338</u>	<u>\$7,607</u>

We review our intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable, based upon estimated undiscounted future cash flows. When we are required to determine the fair value of intangible assets other than goodwill, we use the income approach. We start with a forecast of all the expected net cash flows associated with the asset and then we apply an asset-specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected net cash flows on the projections and the selection of a long-term growth rate and the discount rate. Based on our review, the intangible assets resulting from the RadioPulse acquisition were determined to be fully impaired and an impairment charge of \$1.4 million was recognized during the quarter ended December 31, 2016.

The following table summarizes the components of the acquired identifiable intangible assets associated with the acquisitions of RadioPulse and a 4-bit and 8-bit microcontroller product line, or the Acquired MCU Business, in fiscal 2014.

	<u>Fair Value</u> (In thousands)	<u>Amortization</u> <u>Method</u>	<u>Estimated</u> <u>Useful Life</u> (In months)
RadioPulse:			
Developed intellectual property	\$ 1,005	Accelerated	60
Customer relationships	500	Accelerated	36
In-process research and development expense	1,188	Straight-line	60
Contract backlog	174	Straight-line	6
Total for RadioPulse	<u>\$ 2,867</u>		
Acquired MCU Business:			
Developed intellectual property	\$11,504	Straight-line	60
Customer relationships	6,920	Accelerated	36
Contract backlog	5,155	Straight-line	9
Trade name	421	Straight-line	60
Total for Acquired MCU Business	<u>\$24,000</u>		

For fiscal 2017, 2016 and 2015, amortization expenses on acquisition-related intangible assets were \$3.1 million, \$5.6 million and \$6.0 million, respectively. The amortization of intangible assets is expected to be approximately \$2.4 million and \$596,000 in fiscal 2018 and 2019, respectively.

8. Borrowing Arrangements

Revolving Credit Agreement

On November 20, 2015, we entered into a Revolving Credit Agreement with a syndicate of banks for a line of credit of \$125.0 million. The agent for the banks is Bank of the West. The obligations are guaranteed by four of our subsidiaries. The loan is collateralized pursuant to a Contingent Collateral Agreement, under which the assets of the parent company and the four subsidiaries could be subject to security interests for the benefit of the banks in the event of a loan default.

The credit agreement provides different interest rate alternatives under which we may borrow funds. We may elect to borrow based on LIBOR plus a margin or an alternative base rate plus a margin. The margin can range from 0.75% to 2.5%, depending on interest rate alternatives and on our leverage of liabilities to effective tangible net worth. An unused commitment fee is also payable. It ranges from 0.25% to 0.625%, depending on leverage. The applicable interest rate was 2.85% as of March 31, 2017.

The terms of the facility impose restrictions on our ability to undertake certain transactions, to create liens on assets and to incur subsidiary indebtedness. In addition, the credit agreement is subject to a set of financial covenants, including minimum effective tangible net worth, the ratio of cash, cash equivalents and accounts receivable to current liabilities, profitability, a leverage ratio and a minimum amount of U.S. domestic cash on hand. At March 31, 2016 we complied with these financial covenants, except the leverage ratio. The banks waived a default under the Revolving Credit Agreement caused by the leverage ratio, which compared total funded indebtedness as of March 31, 2016 to EBITDA for the four fiscal quarters ended March 31, 2016. The leverage ratio minimally exceeded the contractually agreed ratio of 2:1. The waiver by the banks was a one-time waiver and was not deemed to be an amendment, waiver, consent, release or modification of any other term or condition of the Revolving Credit Agreement.

In December 2016, we entered into an amendment to the Revolving Credit Agreement with the lenders under which the contractual term of the revolving loan was extended to November 20, 2019. The leverage ratio was increased to 2.50 to 1.00 from 2.00 to 1.00. No other terms of the Revolving Credit Agreement were affected by the amendment. At March 31, 2017, we complied with all of the financial covenants.

In relation to the execution of the amendment to the Revolving Credit Agreement, we incurred loan costs of \$281,000 that were deferred and reduced our “Long term loans, net of current portion” on our audited consolidated balance sheets. Those costs, together with the unamortized loan costs of the Revolving Credit Agreement entered on November 20, 2015, are being amortized over the new life of the credit agreement. The unamortized balance at March 31, 2017 and March 31, 2016 was \$399,000 and \$304,000, respectively.

At March 31, 2017 and March 31, 2016, the outstanding principal balances under the credit agreement were \$72.6 million and \$80.0 million, respectively.

The Revolving Credit Agreement also includes a \$10.0 million letter of credit subfacility. Borrowing under this subfacility is limited to the extent of availability under the \$125.0 million revolving line of credit.

IKB Deutsche Industriebank

In April 2015, we entered into a loan with IKB. Under the agreement, we borrowed €6.5 million, or about \$7.2 million at the time. The loan has a term ending March 31, 2022 and bears a fixed annual interest rate of 1.75%. Each fiscal quarter, a principal payment of €232,000, or about \$248,000, and a payment of accrued interest are required. Financial covenants for a ratio of indebtedness to cash flow, a ratio of equity to total assets and a minimum stockholders’ equity for the German subsidiary must be satisfied for the loan to remain in good standing. Compliance with these covenants is required annually at March 31. We complied with all of these financial covenants at March 31, 2017. The loan may be prepaid in whole or in part with a modest penalty. The loan is also collateralized by a security interest in the facility in Lampertheim, Germany, and a security deposit of €1.0 million. The security deposit will mature on December 29, 2017, so long as compliance occurs through that date. At March 31, 2017, the outstanding principal balance was €4.6 million, or \$5.0 million at that time.

Loans Assumed from Business Acquisitions

Our outstanding balances relating to loans assumed upon business acquisitions at March 31, 2017 and March 31, 2016 were \$288,000 and \$1.1 million, respectively.

Aggregate Debt Maturities

Aggregate debt maturities at March 31, 2017 were as follows (in thousands):

<u>Fiscal Year Payable</u>	<u>Amount</u>
2018	\$ 1,058
2019	1,047
2020	73,648
2021	1,048
2022	1,048
Thereafter	—
Total	77,849
Less: current portion	1,058
Long-term portion(1)	<u>\$76,791</u>

(1) Includes approximately \$399,000 of unamortized debt issuance cost.

9. Pension Plans

We maintain three defined benefit pension plans: one for the UK employees, one for German employees, and one for Philippine employees. We deposit funds for the UK and Philippine plans with financial institutions and make payments to former German employees directly. We accrue for the unfunded portion of the obligations. The measurement date for projected benefit obligations and plan assets is March 31. The UK and German plans have been curtailed. As such, the plans are closed to new entrants and no credit is provided for additional periods of service.

Net Period Pension Cost

The net periodic pension expense includes the following components (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Service cost	\$ 109	\$ 101	\$ 104
Interest cost on projected benefit obligation	1,313	1,450	1,803
Expected return on plan assets	(1,183)	(1,721)	(1,910)
Recognized actuarial loss	387	438	179
Net periodic pension expense	<u>\$ 626</u>	<u>\$ 268</u>	<u>\$ 176</u>

Net Amount Recognized (in thousands)

	Year Ended March 31,	
	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 45,021	\$ 47,346
Service cost	109	101
Interest cost	1,313	1,450
Actuarial (gain) loss	3,356	(1,549)
Benefits paid	(1,543)	(1,830)
Foreign currency adjustment	<u>(5,073)</u>	<u>(497)</u>
Projected benefit obligation at year end	<u>\$ 43,183</u>	<u>\$ 45,021</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ 28,714	\$ 30,114
Actual return (loss) on plan assets	3,526	(156)
Employer contribution	993	1,009
Benefits paid from assets	(1,083)	(1,388)
Foreign currency adjustment	<u>(3,868)</u>	<u>(865)</u>
Plan assets at fair value at year end	<u>\$ 28,282</u>	<u>\$ 28,714</u>
Unfunded status of the plan at year end	<u>\$ 14,901</u>	<u>\$ 16,307</u>
Pension liability recognized on the balance sheet due after one year	\$ 14,901	\$ 16,307
Plans with projected benefit obligation and accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation at year end	\$ 43,183	\$ 45,021
Accumulated benefit obligation at year end	\$ 42,652	\$ 44,509
Plan assets at fair value at year end	\$ 28,282	\$ 28,714
Amounts recognized in accumulated other comprehensive income (loss):		
Unrecognized actuarial loss, before tax	<u>\$(11,457)</u>	<u>\$(12,140)</u>
Amount recognized as component of stockholders' equity — pretax	<u>\$(11,457)</u>	<u>\$(12,140)</u>
Accumulated benefit obligation at year end	<u>\$ 42,652</u>	<u>\$ 44,509</u>

Weighted average actuarial assumptions used to determine benefit obligations for the plans were as follows:

	Year End March 31,	
	2017	2016
Discount rate	1.9-5.2%	1.9-4.6%
Expected long term rate of return on assets	3.8-6.0%	4.4-7.0%
Salary scale	5.0%	5.0%

Information on Plan Assets

We report and measure the plan assets of our defined benefit pension plans at fair value. The table below sets forth the fair value of our plan assets as of March 31, 2017 and 2016, using the same three-level hierarchy of fair-value inputs described in Note 4, “Fair Value” (in thousands):

Description	March 31, 2017			March 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash funds	\$ 136	\$ —	\$ 136	\$ 121	\$ —	\$ 121
Equity	314	—	314	351	—	351
Fixed interest	1,203	58	1,261	1,225	96	1,321
Mutual funds	<u>13,181</u>	<u>13,390</u>	<u>26,571</u>	<u>13,527</u>	<u>13,394</u>	<u>26,921</u>
Total	<u>\$14,834</u>	<u>\$13,448</u>	<u>\$28,282</u>	<u>\$15,224</u>	<u>\$13,490</u>	<u>\$28,714</u>

The expected long term rate of return on assets is a weighted average of the returns expected for the underlying broad asset classes. The expected returns for each asset class are estimated in light of the market conditions on the accounting date and the past performance of the asset classes generally.

The amount of accumulated other comprehensive income expected to be recognized in net periodic pension cost in fiscal 2018 includes amortization of actuarial loss of \$397,000. Approximately 73% of the accrued pension liability relates to the German plan and 25% to the UK plan. The accrued pension liability related to the Philippine plan is immaterial.

The investment policies and strategies for the UK plan assets are determined by the respective plan’s trustees in consultation with independent investment consultants and the employer. Our practice is to fund these plans in amounts at least sufficient to meet the minimum requirements of local laws and regulations. The trustees are aware that the nature of the liabilities of the plans will evolve as the age profile and life expectancy of the membership changes. These changing liability profiles lead to consultations about the appropriate balance of investment assets to be used by the plans (equity, debt, other), as well as timescales, within which required adjustments should be implemented. The plan assets in the UK are held in pooled investment funds operated by Fidelity Worldwide Investments. Our plan assets do not include direct holdings of our securities. The investment managers have discretion to vary the balance of investments of the scheme according to prevailing investment conditions and the trustees regularly monitor all investment decisions affecting the scheme and the overall investment performance. At March 31, 2017, approximately 50% of the assets of the UK fund were invested in a diversified growth fund, which may invest in securities, collective investment schemes, money market instruments and cash and deposits, while 50% were in debt securities. The investments in debt securities are made in government index-linked bonds and investment grade corporate bonds. The target allocation of the UK plan assets that we control is 50% diversified growth fund and 50% debt securities.

The German plan was held by a separate legal entity. As of March 31, 2017, the German defined benefit plan was completely unfunded and we accrued for its obligations.

For our Philippine plan, the local law requires us to appoint a trustee for the fund. We have appointed Bank of the Philippine Islands, or BPI, as the trustee of the plan. The plan assets are fully invested with BPI. The main role of the trustee is to manage the fund according to the mandate given by the retirement committee of our Philippine entity and to pay the covered/eligible employees in accordance with the plan. BPI Asset Management and Trust Group, an independent unit of BPI, provides investment management services to the trustee. At March 31, 2017, approximately 75% of the assets of the fund were invested in fixed income securities, 19% in

equity securities and 6% in cash. The target allocation for the Philippine fund was 75% to fixed income securities, 20% to equities and 5% to cash and cash equivalents.

We expect to make contributions to the plans of approximately \$948,000 in the fiscal year ending March 31, 2018. This contribution is primary contractual.

We expect to pay benefits in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter of approximately the following (in thousands):

<u>Fiscal Year Ended:</u>	<u>Benefit Payment</u>
March 31, 2018	\$ 1,525
March 31, 2019	1,561
March 31, 2020	1,632
March 31, 2021	1,660
March 31, 2022	1,611
Five fiscal years ended March 31, 2027	<u>9,449</u>
Total benefit payments for the ten fiscal years ended March 31, 2027	<u>\$17,438</u>

10. Employee Equity Incentive Plans

Stock Purchase and Stock Option Plans

The 2009 Equity Incentive Plan, the 2011 Equity Incentive Plan, the 2013 Equity Incentive Plan and the 2016 Equity Incentive Plan

On September 10, 2009, our stockholders approved the 2009 Equity Incentive Plan, or the 2009 Plan, under which 900,000 shares of our common stock were reserved for the grant of stock options and other equity incentives. On September 16, 2011, our stockholders approved the 2011 Equity Incentive Plan, or the 2011 Plan, under which 600,000 shares of our common stock were reserved for the grant of stock options and other equity incentives. On August 30, 2013, our stockholders approved the 2013 Equity Incentive Plan, or the 2013 Plan, under which 2,000,000 shares of our common stock were reserved for the grant of stock options and other equity incentives. On August 26, 2016, our stockholders approved the 2016 Equity Incentive Plan, or the 2016 Plan, under which 2,000,000 shares of the common stock were reserved for the grant of stock options and other equity incentives. The 2009 Plan, the 2011 Plan, the 2013 Plan and the 2016 Plan are referred to as the Plans.

Stock Options

Under the Plans, nonqualified and incentive stock options may be granted to employees, consultants and non-employee directors. Generally, the per share exercise price shall not be less than 100% of the fair market value of a share on the grant date. The Board of Directors has the full power to determine the provisions of each option issued under the Plans. While we may grant options that become exercisable at different times or within different periods, we have primarily granted options that vest over four years. The options, once granted, expire ten years from the date of grant.

Stock Awards

Stock awards, denominated restricted stock under the 2009 Plan and the 2011 Plan, may be granted to any employee, director or consultant under the Plans. Pursuant to a stock award, we will issue shares of common stock. Shares that are subject to the restriction will be released from restriction if certain requirements, including continued performance of services, are met.

Stock Appreciation Rights

Awards of stock appreciation rights, or SARs, may be granted to employees, consultants and non-employee directors pursuant to the Plans. A SAR is payable on the difference between the market price at the time of exercise and the exercise price at the date of grant. In any event, the exercise price of a SAR shall not be less than

100% of the fair market value of a share on the grant date and shall expire no later than ten years from the grant date. Upon exercise, the holder of a SAR shall be entitled to receive payment either in cash or a number of shares by dividing such cash amount by the fair market value of a share on the exercise date.

Restricted Stock Units

Restricted stock units, denominated performance units in the 2009 Plan, may be granted to employees, consultants and non-employee directors under the Plan. Each restricted stock unit shall have a value equal to the fair market value of one share. After the applicable performance period has ended, the holder will be entitled to receive a payment, either in cash or in the form of shares, based on the number of restricted stock units earned over the performance period, to be determined as a function of the extent to which the corresponding performance goals or other vesting provisions have been achieved.

The 1999 Equity Incentive Plan

Prior to May 2009, stock options were granted under the 1999 Equity Incentive Plan, or the 1999 Plan, for not less than 85% of fair market value at the time of grant. Once granted, the options expire ten years from the date of grant. Options granted to employees under the 1999 Equity Incentive Plan typically vested over four years. The 1999 Plan expired in May 2009 and no additional grants may be made thereunder.

Zilog 2004 Omnibus Stock Incentive Plan

The Zilog 2004 Omnibus Stock Incentive Plan, or the Zilog 2004 Plan, was approved by the stockholders of Zilog in 2004, and was amended and approved by the stockholders of Zilog in 2007. In connection with the acquisition of Zilog, our Board of Directors approved assumption of the Zilog 2004 Plan. Employees of Zilog and persons first employed by our company after the closing of the acquisition of Zilog were eligible to receive grants under the Zilog 2004 Plan. Under the 2004 Plan, non-statutory stock options were granted. At the time of the assumption of the Zilog 2004 Plan by our company, up to 652,963 shares of our common stock were available for grant under the plan.

In general, the options and shares granted pursuant to the Zilog 2004 Plan are exercisable at such time or times, and subject to such terms and conditions (including the vesting schedule, period of exercisability and expiration date) as the plan administrator, generally the Compensation Committee of our Board of Directors, determined in the applicable option agreement. The exercise price per share, payable upon the exercise of an option, was established by such administrator at the time of the grant and is not less than the par value per share of common stock on the date of the grant and, in the case of an incentive stock option, generally is not less than 100% of the fair market value per share on the date of grant. The Zilog 2004 Plan expired in February 2014 and no additional grants may be made thereunder.

Zilog 2002 Omnibus Stock Incentive Plan

The Zilog 2002 Omnibus Stock Incentive Plan, or the Zilog 2002 Plan, was adopted in 2002. In connection with the acquisition of Zilog, our Board of Directors approved the assumption of the Zilog 2002 Plan with respect to the shares available for grant as stock options. Employees of Zilog and persons first employed by our company after the closing of the acquisition of Zilog were eligible to receive grants under the Zilog 2002 Plan. At the time of the assumption of the Zilog 2002 Plan by our company, up to 366,589 shares of our common stock were available for grant under the plan.

Stock options granted under the Zilog 2002 Plan were permitted to be: (i) incentive stock options or nonqualified stock options or (ii) EBITDA-linked options and/or non-EBITDA linked options. We did not grant any EBITDA-linked options and none are outstanding. In general, non-EBITDA-linked options granted pursuant to the Zilog 2002 Plan was exercisable at such time or times and subject to such terms and conditions (including the vesting schedule, period of exercisability and expiration date) as determined by the plan administrator in the applicable award agreements or thereafter. The exercise price per share payable upon the exercise of an option was established by such administrator at the time of grant. The term of each non-EBITDA-linked option was determined at the time of grant and does not exceed ten years. The Zilog 2002 Plan expired in May 2012 and no additional grants may be made thereunder.

Employee Stock Purchase Plan

The Board of Directors has approved the Amended and Restated 1999 Employee Stock Purchase Plan, or the Purchase Plan, and reserved a total of 1,550,000 shares of common stock for issuance under the Purchase Plan. Under the Purchase Plan, all eligible employees may purchase our common stock at a price equal to 85% of the lower of the fair market value at the beginning of the offer period or the semi-annual purchase date. Stock purchases are limited to 15% of an employee's eligible compensation. During the year ended March 31, 2017, there were 112,171 shares purchased under the Purchase Plan, leaving approximately 128,070 shares available for purchase under the Purchase Plan in the future.

Fair Value of Stock Compensation

The authoritative guidance provided by FASB requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award.

Compensation cost for equity incentive awards is based on the grant-date fair value estimated in accordance with the authoritative guidance provided by FASB. We use the straight-line attribution method to recognize share-based compensation costs over the service period of the award.

The fair value of issuances under our Purchase Plan is estimated on the issuance date and using the Black-Scholes options pricing model, consistent with the requirements of the authoritative guidance provided by FASB.

The following table summarizes the effects of share-based compensation expenses recognized on our consolidated statement of operations resulting from options granted under our equity incentive plans and rights to acquire stock granted under our Purchase Plan (in thousands):

<u>Statement of Operations Classifications</u>	<u>Year Ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cost of goods sold	\$ 362	\$ 488	\$ 433
Research, development and engineering(1)	1,144	1,272	814
Selling, general and administrative	1,932	1,832	1,620
Stock-based compensation effect in income before income tax provision	3,438	3,592	2,867
Provision for income tax	694	660	1,009
Net stock-based compensation effects on net income	<u>\$2,744</u>	<u>\$2,932</u>	<u>\$1,858</u>

(1) Includes acquisition-related compensation expenses of \$249,000 during fiscal 2016.

As of March 31, 2017, there were approximately \$6.8 million of total unrecognized compensation costs related to stock options granted. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.6 years.

The Black-Scholes option pricing model is used to estimate the fair value of options granted under our equity incentive plans and rights to acquire stock granted under our stock purchase plan. The weighted average estimated fair values of employee stock option grants and rights granted under the Purchase Plan, as well as the weighted average assumptions that were used in calculating such values during the during fiscal 2017, 2016 and 2015, were based on estimates at the date of grant as follows:

	Stock Options			Purchase Plan		
	Year Ended March 31,			Year Ended March 31,		
	2017	2016	2015	2017	2016	2015
Weighted average estimated fair value of grant per share	\$4.48	\$4.83	\$5.54	\$3.28	\$3.33	\$2.90
Risk-free interest rate	1.6%	1.8%	1.8%	0.4%	0.1%	0.1%
Expected term in years	6.41	6.45	6.25	0.75	0.50	0.50
Volatility	40.6%	44.9%	52.2%	37.5%	39.8%	36.9%
Dividend yield	0.4%	1.2%	1.0%	0.7%	1.1%	1.1%

We estimate the expected term of options granted based on the historical average period over which the options are exercised by employees. We estimate the volatility of our common stock based on historical volatility measures. We base the risk-free interest rate that is used in the option valuation model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term of the options.

We estimate the dividend yield based on the historical trend and our expectation of future dividends. Dividend yield is calculated based on the annualized cash dividends per share declared during the quarter and the closing stock price on the date of grant. We are required to estimate forfeitures at the time of grants and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

We recognize the estimated compensation cost of restricted stock over the vesting term. The estimated compensation cost is based on the fair value of our common stock on the date of grant.

We recognize the compensation cost relating to stock bonuses on the date of grant based on the fair value of our common stock on the date of grant, as such stock bonuses are vested immediately. We did not grant any bonus shares during fiscal 2017.

Stock compensation activities under our equity incentive plans for fiscal 2017, 2016 and 2015 were as follows:

	Shares Available for Grant	Options Outstanding		Weighted Average Exercise Price per Share
		Number of Shares(1)	Intrinsic Value(2) (000)	
Balances, March 31, 2014	1,930,250	5,201,635	\$ 8,658	\$10.22
Options granted	(249,000)	249,000		\$11.83
Options exercised	—	(339,374)	\$ 1,310	\$ 8.62
Options cancelled	39,750	(94,250)		\$11.46
Options expired	26,000	(74,500)		\$11.17
Balances, March 31, 2015	1,747,000	4,942,511	\$10,831	\$10.37
Options granted	(1,124,000)	1,124,000		\$11.72
Options exercised	—	(382,826)	\$ 1,551	\$ 9.02
Options cancelled	14,500	(14,500)		\$11.31
Options expired	—	(434,788)		\$14.68
Balances, March 31, 2016	637,500	5,234,397	\$ 6,456	\$10.40
New shares authorized(3)	2,000,000			
Options granted	(746,000)	746,000		\$11.06
Options exercised	—	(859,852)	\$ 3,112	\$ 9.10
Options cancelled	7,500	(7,500)		\$13.37
Options expired	22,500	(27,500)		\$11.81
Balances, March 31, 2017	<u>1,921,500</u>	<u>5,085,545</u>	\$19,570	\$10.70

- (1) The number of stock options exercised includes shares that were withheld on behalf of employees to satisfy the statutory tax withholding requirements.
- (2) Except for options exercised, these amounts represent the difference between the exercise price and \$14.55 per share, the closing price of our stock on March 31, 2017 as reported on the NASDAQ Global Select Market, for all in-the-money, outstanding and exercisable options.
- (3) On August 26, 2016, our stockholders approved the 2016 Plan, under which 2,000,000 shares of our common stock are reserved for the grant of stock options and other equity incentives.

The following table summarizes information about stock options outstanding at March 31, 2017:

Exercise Price per Share	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price per Share	Number of Shares Exercisable	Weighted Average Exercise Price per Share
\$ 5.01 - 7.75	576,500	1.6	\$ 6.66	576,500	\$ 6.66
\$ 7.76 - 10.00	843,295	4.7	\$ 9.30	783,545	\$ 9.30
\$10.01 - 12.50	2,890,750	6.9	\$11.31	1,417,000	\$11.51
\$12.51 - 14.50	<u>775,000</u>	5.4	\$12.95	<u>523,250</u>	\$12.78
\$ 5.01 - 14.50	<u>5,085,545</u>	5.7	\$10.70	<u>3,300,295</u>	\$10.34

Of the 5,085,545 options outstanding, 3,300,295 were exercisable on March 31, 2017 at a weighted average exercise price of \$10.34 per share, with an intrinsic value of \$13.9 million. The weighted average remaining contractual life of options outstanding and options exercisable at March 31, 2017 was 5.7 years and 4.1 years, respectively. The fair value of options that vested during the year ended March 31, 2017 was \$2.9 million.

The following table summarizes information about stock options outstanding at March 31, 2016:

Exercise Price per Share	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price per Share	Number of Shares Exercisable	Weighted Average Exercise Price per Share
\$ 5.01 - 7.75	819,897	2.6	\$ 6.63	819,897	\$ 6.63
\$ 7.76 - 10.00	1,223,500	4.8	\$ 9.33	1,017,750	\$ 9.29
\$10.01 - 12.50	2,448,000	6.6	\$11.42	1,331,916	\$11.52
\$12.51 - 13.37	743,000	6.1	\$12.96	450,000	\$12.69
\$ 5.01 - 13.37	<u>5,234,397</u>	5.5	\$10.40	<u>3,619,563</u>	\$ 9.93

Of the 5,234,397 options outstanding, 3,619,563 were exercisable on March 31, 2016 at a weighted average exercise price of \$9.93 per share, with an intrinsic value of \$6.0 million. The weighted average remaining contractual life of options outstanding and options exercisable at March 31, 2016 was 5.5 years and 4 years, respectively. The fair value of options that vested during the year ended March 31, 2016 was \$2.8 million.

11. Accumulated Other Comprehensive Income (Loss)

The components and the changes in accumulated other comprehensive income (loss), net of income taxes, were as follows (in thousands):

	Foreign Currency	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss)
Balance as of March 31, 2014	\$ 10,535	\$ 325	\$(5,831)	\$ 5,029
Other comprehensive income (loss) before reclassifications	(24,112)	(1,536)	(3,830)	(29,478)
Net gain (loss) reclassified from accumulated other comprehensive income (loss)	—	1,218	143	1,361
Net current period other comprehensive income (loss)	(24,112)	(318)	(3,687)	(28,117)
Balance as of March 31, 2015	(13,577)	7	(9,518)	(23,088)
Other comprehensive income (loss) before reclassifications	2,938	(362)	(71)	2,505
Net gain (loss) reclassified from accumulated other comprehensive income (loss)	—	273	44	317
Net current period other comprehensive income (loss)	2,938	(89)	(27)	2,822
Balance as of March 31, 2016	(10,639)	(82)	(9,545)	(20,266)
Other comprehensive income (loss) before reclassifications	(8,594)	(106)	196	(8,504)
Net gain (loss) reclassified from accumulated other comprehensive income (loss)	—	(31)	256	225
Net current period other comprehensive income (loss)	(8,594)	(137)	452	(8,279)
Balance as of March 31, 2017	<u>\$(19,233)</u>	<u>\$ (219)</u>	<u>\$(9,093)</u>	<u>\$(28,545)</u>

The amounts reclassified out of accumulated other comprehensive income (loss) for the fiscal year 2017, 2016 and 2015 were as follows (in thousands):

Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			Impacted Line Item on Consolidated Statements of Operations
	Year Ended March 31,			
	2017	2016	2015	
Net gain (loss) on investments	\$ 201	\$ (1)	\$ 30	Other income (expense), net
Impairment of marketable securities . .	(151)	(454)	(1,903)	Other income (expense), net
Recognized actuarial loss	(387)	(437)	(179)	Cost of goods sold
Subtotal	(337)	(892)	(2,052)	Income before income tax provision
Tax impact	112	575	691	Provision for income tax
Total reclassifications for the year	<u>\$(225)</u>	<u>\$(317)</u>	<u>\$(1,361)</u>	Net income

12. Computation of Earnings per Share

Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

	Year Ended March 31,		
	2017	2016	2015
Net income	<u>\$21,348</u>	<u>\$14,741</u>	<u>\$23,740</u>
Weighted average shares — basic	<u>31,544</u>	<u>31,579</u>	<u>31,531</u>
Weighted average shares — diluted	<u>32,248</u>	<u>32,381</u>	<u>32,239</u>
Net income per share — basic	<u>\$ 0.68</u>	<u>\$ 0.47</u>	<u>\$ 0.75</u>
Net income per share — diluted	<u>\$ 0.66</u>	<u>\$ 0.46</u>	<u>\$ 0.74</u>

Diluted weighted average shares included approximately 704,000, 802,000 and 708,000 common equivalent shares from stock options for fiscal 2017, 2016 and 2015, respectively.

Basic net income available per common share is computed using net income and the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed using net income and the weighted average number of common shares outstanding, assuming dilution, which includes potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of stock options using the treasury stock method. In fiscal 2017, 2016 and 2015, there were outstanding options to purchase 2,945,238, 1,943,420 and 2,357,772 shares, respectively, at weighted average exercise prices of \$11.79, \$12.02 and \$12.24 per share, respectively, that were not included in the computation of diluted net income per share since the exercise prices of the options exceeded the market price of the common stock and thus their inclusion would be anti-dilutive. These options could dilute earnings per share in future periods if the market price of the common stock increases.

13. Related Party Transactions

We own 45% of the outstanding equity of Powersem, a module manufacturer based in Germany. The investment is accounted for using the equity method. In fiscal 2017, 2016 and 2015, we recorded revenues of \$1.6 million, \$1.5 million and \$1.8 million, respectively, from sales of products to Powersem for use as components in their products. In fiscal 2017, 2016 and 2015, we purchased \$3.9 million, \$3.4 million and \$4.0 million, respectively, of products from Powersem. At March 31, 2017 and 2016, the accounts receivable balances from our sales to Powersem were \$96,000 and \$99,000, respectively. The accounts payable balances to Powersem, as of March 31, 2017 and 2016, were \$72,000 and \$63,000, respectively. The carrying values at March 31, 2017 and March 31, 2016 were \$2.5 million.

We own approximately 20% of the outstanding equity of EB Tech Ltd., a company with expertise in radiation technology based in South Korea. The investment is accounted for using the equity method. In fiscal

2017, 2016 and 2015, EB Tech rendered processing services totaling approximately \$347,000, \$378,000 and \$278,000, respectively, to our company. As of March 31, 2017 and 2016, our accounts payable balances to EB Tech were \$35,000 and \$26,000, respectively. The carrying values at March 31, 2017 and at March 31, 2016 were \$2.6 million and \$2.7 million, respectively.

On December 12, 2014, we acquired approximately 24% of the outstanding common shares of ATEC, a supplier located in the Philippines that provides assembly and test services. The investment is accounted for by the equity method. In fiscal 2017 and 2016, ATEC rendered assembly and test services totaling approximately \$7.8 million and \$8.0 million to our company, respectively. As of March 31, 2017 and 2016, the accounts payable balances to ATEC were \$996,000 and \$737,000, respectively. The carrying values at March 31, 2017 and at March 31, 2016 were \$6.5 million and \$5.7 million, respectively.

We had no other material related party transactions with companies in which we invested and which were accounted for by the equity method during fiscal 2017.

14. Employee Savings and Retirement Plans

We have a 401(k) plan, known as the “IXYS Corporation and Subsidiary Employee Savings and Retirement Plan.” Eligibility to participate in the plan is subject to certain minimum service requirements. Employees may voluntarily contribute up to the limit prescribed by law and we may make matching contributions in our discretion. Employees are 100% vested immediately in any contributions by us. For the years ended March 31, 2017, 2016 and 2015, we contributed \$606,000, \$616,000 and \$615,000, respectively.

IXYS UK also has a defined contribution plan, known as “Westcode Semiconductor Group Personal Pension.” The plan is subject to minimum service requirements. Employees contribute up to 4.5% of the pensionable salary. IXYS UK contributes up to 7% depending upon the contribution by the employee. Additionally, IXYS UK pays the annual management charges for the plan. Employees are 100% vested immediately in any contributions by IXYS UK. For the years ended March 31, 2017, 2016 and 2015, IXYS UK contributed \$241,000, \$278,000 and \$287,000, respectively.

15. Segment and Geographic Information

We have a single operating segment and reportable segment. We design, develop, manufacture and market high performance semiconductor products. Our two Chief Executive Officers, one of whom is also the Chief Financial Officer, have been identified as the chief operating decision makers. Our chief operating decision makers review financial information presented as one operating segment for the purpose of making decisions, allocating resources and assessing financial performance.

Our net revenues by major geographic area (based on destination) were as follows (in thousands):

	Year Ended March 31,		
	2017	2016	2015
United States	\$ 81,499	\$ 75,994	\$ 85,314
Europe and the Middle East:			
Austria	2,313	1,836	2,290
Finland	2,178	1,899	1,669
France	9,553	9,076	7,917
Germany	37,919	33,215	32,866
Hungary	1,942	2,082	2,571
Italy	4,091	4,328	4,645
Netherlands	4,488	3,608	2,315
Russia	1,263	4,773	5,051
Sweden	1,694	2,155	4,460
Switzerland	2,311	2,789	2,569
Turkey	1,929	2,376	2,658
United Kingdom	14,042	13,502	19,832
Other	10,097	10,700	11,259
Asia Pacific:			
China	84,447	79,575	83,597
Indonesia	2,160	2,128	3,224
Japan	6,995	9,271	8,469
Malaysia	4,692	4,662	5,580
Singapore	13,509	12,353	11,694
South Korea	19,282	23,215	22,371
Taiwan	2,051	3,151	2,688
Thailand	3,547	3,904	4,300
Other	1,557	1,929	1,148
Rest of the World:			
India	4,315	4,293	5,163
Other	4,249	4,395	5,117
Total	<u>\$322,123</u>	<u>\$317,209</u>	<u>\$338,767</u>

The following table sets forth net revenues for each of our product groups during fiscal 2017, 2016 and 2015 (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Power semiconductors	\$221,312	\$213,347	\$219,445
Integrated circuits	82,067	84,078	95,547
Systems and RF power semiconductors	18,744	19,784	23,775
Total	<u>\$322,123</u>	<u>\$317,209</u>	<u>\$338,767</u>

Revenue from significant customers, those representing 10% or more of total revenue for the respective periods, is summarized as follows:

	<u>Year Ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Distributor A	12.3%	12.2%	10.2%
Distributor B	10.8%	less than 10%	10.5%

Accounts receivable from significant customers, those representing 10% or more of accounts receivable for the respective dates, is summarized as follows:

	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Accounts Receivable:		
Distributor A	15.2%	18.2%
Distributor C	10.5%	less than 10%

Our principal foreign operations consist of our subsidiaries, IXYS GmbH in Germany, IXYS UK in the United Kingdom and IXYS Semiconductor BV in the Netherlands. The following table summarizes the net revenues, net income and long-lived assets of our domestic and foreign operations (in thousands):

	<u>Year Ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net revenues:			
Foreign	\$148,159	\$159,984	\$188,964
Domestic	<u>173,964</u>	<u>157,225</u>	<u>149,803</u>
Total	<u>\$322,123</u>	<u>\$317,209</u>	<u>\$338,767</u>
Net income:			
Foreign	\$ 17,172	\$ 11,039	\$ 21,379
Domestic	<u>4,176</u>	<u>3,702</u>	<u>2,361</u>
Total	<u>\$ 21,348</u>	<u>\$ 14,741</u>	<u>\$ 23,740</u>
	<u>March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property, plant and equipment, net:			
United States	\$25,284	\$26,792	\$27,740
Germany	15,594	14,506	13,228
Other countries	<u>1,362</u>	<u>1,325</u>	<u>1,577</u>
Total property, plant and equipment, net	<u>\$42,240</u>	<u>\$42,623</u>	<u>\$42,545</u>

16. Income Taxes

In fiscal 2017, the provision for income taxes had an effective tax rate of 26% as compared to 37% in fiscal 2016 and 22% in fiscal 2015. The fiscal 2017 and 2015 tax rates reflected higher income generated in certain foreign jurisdictions with lower taxes rates. The higher tax rate in fiscal 2016 was caused by an out-of-period adjustment of 6% of pretax income and the recording of valuation allowances for net operating losses generated in foreign jurisdictions.

Income before income tax consisted of the following (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Domestic	\$ 7,997	\$ 9,030	\$ 3,390
International	20,903	14,459	27,040
Total	<u>\$28,900</u>	<u>\$23,489</u>	<u>\$30,430</u>

Our provision for income taxes consisted of the following (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Current:			
Federal	\$ 406	\$1,418	\$ 201
State	(560)	126	83
Foreign	4,532	3,436	5,066
Total current	<u>4,378</u>	<u>4,980</u>	<u>5,350</u>
Deferred:			
Federal	1,867	3,554	945
State	1,256	189	20
Foreign	51	25	375
Total deferred	<u>3,174</u>	<u>3,768</u>	<u>1,340</u>
Total provision for income tax	<u>\$7,552</u>	<u>\$8,748</u>	<u>\$6,690</u>

The reconciliation of our effective tax rate to the U.S. statutory federal income tax rate was as follows:

	Year Ended March 31,		
	2017	2016	2015
	(%)	(%)	(%)
Statutory federal income tax rate	35	35	35
State taxes, net of federal tax benefit	1	1	1
Expense (benefit) of lower-tax foreign jurisdictions	(17)	(10)	(15)
Tax credits	(2)	(3)	(1)
Valuation allowances	4	3	—
Permanent items	—	(5)	—
Tax reserves	1	—	—
Tax asset write-off	2	10	—
Foreign income	<u>2</u>	<u>6</u>	<u>2</u>
Effective tax provision rate	<u>26</u>	<u>37</u>	<u>22</u>

The significant components of net deferred income tax assets were as follows (in thousands):

	March 31,	
	2017	2016
Deferred tax assets:		
Reserves and allowances	\$ 5,504	\$ 6,018
Other liabilities and accruals	6,297	6,176
Depreciable assets	404	83
Net operating loss carryforwards	10,236	11,675
Share-based compensation	4,721	5,098
Credits carryforward	<u>2,188</u>	<u>2,440</u>
Total deferred tax assets	<u>29,350</u>	<u>31,490</u>
Less: Valuation allowances and other reserves	<u>(4,611)</u>	<u>(3,466)</u>
Net deferred tax assets	<u>\$24,739</u>	<u>\$28,024</u>

The authoritative guidance provided by FASB requires deferred tax assets and liabilities to be recognized for temporary differences between the tax basis and financial reporting basis of assets and liabilities, computed at the expected tax rates for the periods in which the assets or liabilities will be realized, as well as for the expected tax benefit of net operating loss and tax credit carryforwards. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowances recorded against net deferred tax assets. Our management evaluates the recoverability of these net deferred tax assets in accordance with the authoritative guidance provided by FASB. Our ability to utilize the deferred tax assets and the continuing need for a related valuation allowance are being monitored on an ongoing basis. During fiscal 2017, we recorded certain adjustments on valuation allowances, tax contingency reserves and other temporary items. The impact of these adjustments is discussed further in this note.

Under the Tax Reform Act of 1986, the amounts of and benefits from net operating loss carryforwards and tax credit carryforwards may be impaired or limited in certain circumstances. Events that may restrict utilization of net operating loss and credit carryforwards include, but are not limited to, certain ownership change limitations and continuity of business requirements, as defined in Internal Revenue Code Section 382 and similar state provisions. Current utilization of carryforwards is restricted by an annual limitation, which results in the expiration of net operating loss carryforwards and credit carryforwards before they can be utilized.

In aggregate, the valuation allowances in fiscal 2017 increased by \$1.1 million as compared to fiscal 2016, while it decreased by \$436,000 in fiscal 2016 when compared to fiscal 2015. The increase in valuation allowances in fiscal 2017 primarily related to recoverability of certain research and development tax credits as well as an increase in net operating loss in a foreign jurisdiction.

At March 31, 2017, we had U.S. net operating loss carryforwards of approximately \$23.4 million, all of which are subject to the limitations under Section 382 of the U.S. tax code resulting from a change in ownership. These carryforwards will expire, if not utilized, from fiscal 2018 to 2023 for U.S. tax purposes. None of the U.S. net operating loss carryforwards include stock option deductions arising from our equity incentive plans. As of March 31, 2017 we had net operating loss carryforwards for foreign income tax purposes of approximately \$18.6 million offset by a corresponding valuation allowance of \$16.4 million.

At the end of fiscal 2017, we had \$6.4 million of gross unrecognizable tax benefits, all of which would affect our effective tax rate if recognized. The \$6.4 million has been classified under “Other long term liabilities” on our consolidated balance sheet. Our liability decreased by \$503,000 from the prior year, primarily due to the expiration of statutes of limitation. We do not anticipate any unrecognizable tax benefits in the next 12 months that would result in a material change to our financial position.

We include interest and penalties in the financial statements as a component of income tax expense. We had \$952,000 of accrued interest and penalties at March 31, 2017, which included \$94,000 of interest and penalties reversed for the year ended March 31, 2017, net of \$438,000 of interest and penalties accrued and \$532,000 of interest and penalties reversed.

The aggregate changes in the balance of gross unrecognizable tax benefits were as follows (in thousands):

Balance as of March 31, 2014	\$ 6,978
Lapse of statute of limitations	(3,070)
Increases in balances related to tax positions taken during prior periods	213
Increases in balances related to tax positions taken during the current period	<u>2,831</u>
Balance as of March 31, 2015	6,952
Lapse of statute of limitations	(772)
Increases in balances related to tax positions taken during prior periods	129
Increases in balances related to tax positions taken during the current period	<u>637</u>
Balance as of March 31, 2016	6,946
Lapse of statute of limitations	(1,461)
Decreases in balances related to tax positions taken during prior periods	(63)
Increases in balances related to tax positions taken during the current period	<u>1,021</u>
Balance as of March 31, 2017	<u>\$ 6,443</u>

In addition to the above, our valuation allowances included uncertain tax positions relating to the realizability of net operating losses at certain foreign jurisdictions and certain domestic state tax credits aggregating to \$3.0 million at March 31, 2017. At March 31, 2016 our valuation allowances included uncertain tax positions relating to the realizability of net operating losses at certain foreign jurisdictions of \$4.1 million.

As of March 31, 2017, U.S. income taxes were not provided for on a cumulative total of approximately \$150.5 million of undistributed earnings for certain foreign subsidiaries. The cash and cash equivalents balance of our foreign subsidiaries at March 31, 2017 was approximately \$74.0 million. We intend to reinvest these earnings indefinitely in operations outside of the U.S. If these earnings were distributed to the U.S. in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Determination of the amount of unrecognizable deferred income tax liability related to these earnings is not practicable.

We conduct business globally and, as a result, we file income tax returns in various jurisdictions throughout the world including the U.S. federal and various U.S. state jurisdictions as well as with various foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world. We remain subject to U.S. federal examination for years from 2002 and forward by virtue of the tax attributes carrying forward from those years. We also remain subject to examination in most jurisdictions for all years since 2010.

The Protecting Americans from Tax Hikes Act of 2015, or the Act, was signed into law on December 18, 2015. The Act contains a number of provisions including, most notably, a permanent extension of the U.S. federal research tax credit. The Company's tax provision for fiscal 2017 reflects the benefit of the U.S. federal research credit.

17. Commitments and Contingencies

Commitments

We rent certain of our facilities under operating leases expiring through fiscal 2022. Future operating leases and commitments for the purchase of inventory and property and equipment were as follows (in thousands):

<u>Fiscal Year Ended March 31,</u>	<u>Operating Leases</u>	<u>Other Purchase Obligations</u>
2018	\$1,350	\$23,700
2019	1,209	2,776
2020	1,087	—
2021	667	—
2022	473	—
Total minimum payments	<u>\$4,786</u>	<u>\$26,476</u>

Rent expense for fiscal years ended March 31, 2017, 2016 and 2015 amounted to \$1.5 million, \$1.6 million and \$1.4 million, respectively.

As of March 31, 2017 and 2016, we had cash deposits with financial institutions of \$1.3 million and \$277,000, respectively, which were restricted as to use and represent funds segregated for pension payments in Germany. These balances are included in restricted cash on our audited consolidated balance sheets.

Revolving Credit Agreement

See Note 8, “Borrowing Arrangements” for information regarding the terms of the credit agreement.

Legal Proceedings

On April 17, 2017, North Plate Semiconductor, LLC, or NPS, filed an action for patent infringement against us in the United States District Court for the Eastern District of Michigan, alleging that certain of our IGBTs and power MOSFETs sold in the United States infringe U.S. patents owned by NPS. NPS accused us of infringing the following U.S. patents: 6,617,641; 6,620,653; 6,667,515; 6,717,210; 6,765,239 and 6,936,893. NPS’s complaint sought unspecified damages, but not less than a reasonable royalty on our products that NPS accused of infringement. In its complaint, NPS contended that our alleged infringement of NPS’s patents had been and continued to be willful and sought trebled damages.

There can be no assurance of a favorable outcome in the NPS suit. Although we believe that we have meritorious defenses to the claims of infringement set forth in NPS’s complaint, in the event of an adverse outcome, damages awarded by the U.S. District Court could be materially adverse to our financial condition, results of operations or cash flows.

We are also involved in a variety of other legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition, results of operations and cash flows. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs.

Other Commitments and Contingencies

We make strategic investments in other companies from time to time. These investments include commitments in certain instances to provide additional financing up to the contracted amount. These commitments are insignificant individually or in aggregate.

We have ongoing income tax audits of our subsidiary in the Philippines for the fiscal years ended March 31, 2010 and 2011. The Philippine Bureau of Internal Revenue, or BIR, has made an assessment for a deficiency of income taxes, inclusive of interest and penalties, of approximately \$2.5 million and \$156,000, respectively, for the fiscal years 2010 and 2011. We are vigorously contesting the assessments of both years. While there are no

assurances that we will prevail, we believe that we have valid legal reasons to challenge the BIR's decision and that our appeals will merit a favorable resolution. Accordingly, we have not accrued any amount for this matter.

Selected Quarterly Financial Data (unaudited, in thousands, except per share amounts)

The following table sets forth a summary of our unaudited quarterly operating results for each of the last eight quarters in the period ended March 31, 2017. We have derived this data from our unaudited consolidated interim financial statements that, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

Fiscal Year Ended March 31, 2017

	Three Months Ended			
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Net revenues	\$83,372	\$79,484	\$78,629	\$80,638
Gross profit	29,194	26,939	25,455	23,994
Operating income	9,233	7,819	6,771	5,029
Net income	\$ 9,294	\$ 5,100	\$ 3,935	\$ 3,019
Net income per share:				
Basic(1)	\$ 0.29	\$ 0.16	\$ 0.12	\$ 0.10
Diluted(1)	\$ 0.28	\$ 0.16	\$ 0.12	\$ 0.09
Weighted average shares used in per share calculation:				
Basic	31,724	31,558	31,490	31,401
Diluted	32,635	32,209	32,145	32,001

Fiscal Year Ended March 31, 2016

	Three Months Ended			
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Net revenues	\$79,772	\$75,133	\$80,257	\$82,047
Gross profit	24,115	24,029	26,012	25,602
Operating income	6,834	6,262	7,033	5,704
Net income(2)	\$ 6,197	\$ 2,286	\$ 3,273	\$ 2,985
Net income per share:				
Basic(1)	\$ 0.20	\$ 0.07	\$ 0.10	\$ 0.09
Diluted(1)	\$ 0.19	\$ 0.07	\$ 0.10	\$ 0.09
Weighted average shares used in per share calculation:				
Basic	31,441	31,487	31,651	31,746
Diluted	32,076	32,343	32,380	32,733

- (1) The sum of the four quarterly calculations of net income per share is not equal to the annual net income per share due to the use of quarterly weighted average shares used to determine the quarterly net income per share as compared to the annual weighted average shares used to determine the annual net income per share.
- (2) During the fiscal year ended March 31, 2016, we recorded out-of-period adjustments that increased the income tax provision by a net amount of \$1.4 million. See Note 16, "Income Taxes" in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion of an out-of-period adjustment during the quarter ended December 31, 2015.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our Chief Executive Officers, one of whom is also the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act) as of March 31, 2017. This evaluation included various processes that were carried out in an effort to ensure that information required to be disclosed in our Securities and Exchange Commission, or SEC, reports is recorded, processed, summarized and reported within the time periods specified by the SEC. In this evaluation, the Chief Executive Officers considered whether our disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officers, to allow timely decisions regarding required disclosure. This evaluation also included consideration of certain aspects of our internal controls and procedures for the preparation of our financial statements. Our Chief Executive Officers concluded that, as of March 31, 2017, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2017. In making this assessment, our management used the criteria set forth in *Internal Control-Integrated Framework (2013)*, which was issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded that, as of March 31, 2017, our internal control over financial reporting was effective.

BDO USA, LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting, which is included elsewhere herein.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officers, does not expect that our procedures or our internal controls will prevent or detect all errors and all fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of our controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
IXYS Corporation
Milpitas, California

We have audited IXYS Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). IXYS Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, IXYS Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of IXYS Corporation as of March 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2017 and our report dated June 12, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
June 12, 2017

Item 9B. Other Information

Not applicable.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item, other than with respect to our executive officers and Code of Ethics, is incorporated herein by reference to our Proxy Statement for our 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2017, or our 2017 Proxy Statement, under the captions “Election of Directors,” “Information Regarding the Board and Corporate Governance” and “Section 16(A) Beneficial Ownership Reporting Compliance.”

Executive Officers

The information regarding our executive officers is set forth in Part I of this Annual Report on Form 10-K under the caption “Executive Officers of the Registrant” and is incorporated herein by reference.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees, including our principal executive officers, principal financial officer and principal accounting officer. The Code of Ethics is posted on our website at <http://www.ixys.com/Documents/InvestorRelations/codeofethics.pdf>.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our website, at www.ixys.com, and, to the extent required by the listing standards of the NASDAQ Stock Market, by filing a Current Report on Form 8-K with the SEC disclosing such information.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our 2017 Proxy Statement under the captions “Executive Compensation” and “Information Regarding the Board and Corporate Governance.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to our 2017 Proxy Statement under the captions “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our 2017 Proxy Statement under the captions “Transactions with Related Persons” and “Information Regarding the Board and Corporate Governance.”

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our 2017 Proxy Statement under the caption “Ratification of Selection of Independent Registered Public Accounting Firm.”

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) The following documents are filed as part of this report:

(1) Financial Statements.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of March 31, 2017 and 2016

Consolidated Statements of Operations for the years ended March 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income (Loss) for the years ended March 31, 2017, 2016 and 2015

Consolidated Statements of Stockholders' Equity for the years ended March 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the years ended March 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

(2) Financial statements schedules. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(3) Exhibits.

Exhibit No.	Title
2.1	Share Purchase Agreement dated as of February 2, 2015 by and between IXYS Corporation, IXYS Intl Limited, RadioPulse, Inc., Taek-Shin Kwon and Sellers (filed on June 11, 2015 as Exhibit 2.1 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of IXYS Corporation, as filed with the Secretary of State for the State of Delaware on March 23, 2001 (filed on June 28, 2001 as Exhibit 3.1 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
3.2	Amended and Restated Bylaws of IXYS Corporation (filed on August 29, 2016 as Exhibit 3.2 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
10.1*	Form of Indemnity Agreement for directors and officers (filed on June 12, 2008 as Exhibit 10.3 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.2*	List of signatories to Indemnity Agreement (filed on June 8, 2012 on Exhibit 10.4 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.3*	IXYS Corporation 1999 Equity Incentive Plan (filed on May 18, 2006 as Exhibit 10.1 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
10.4*	IXYS Corporation Amended and Restated 1999 Employee Stock Purchase Plan (filed on August 8, 2014 as Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.5*	Form of Stock Option Agreement for the IXYS Corporation 1999 Equity Incentive Plan (filed on November 9, 2004 as Exhibit 10.3 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.6*	Form of Stock Option Agreement for the IXYS Corporation 1999 Equity Incentive Plan with net exercise provision (filed on June 22, 2006 as Exhibit 10.23 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.7*	Form of Stock Option Agreement for the IXYS Corporation 1999 Equity Incentive Plan for non-employee directors, (filed on June 22, 2006 as Exhibit 10.24 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).

Exhibit No.	Title
10.8*	Sixth Amended Executive Employment Agreement by and between IXYS Corporation and Nathan Zommer, effective as of August 1, 2015 (filed on November 4, 2015 as Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.9*	Third Amendment Executive Employment Agreement by and between IXYS Corporation and Uzi Sasson, effective as of August 1, 2015 (filed on November 4, 2015 as Exhibit 10.2 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.10*	IXYS Corporation 2009 Equity Incentive Plan (filed on August 10, 2009 as Exhibit 10.3 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.11*	Notice of Stock Option Grant and Agreement for the IXYS Corporation 2009 Equity Incentive Plan (filed on August 10, 2009 as Exhibit 10.4 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.12*	Zilog, Inc. 2002 Omnibus Stock Incentive Plan. (filed on June 11, 2010 as Exhibit 10.25 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.13*	Form of Nonqualified Stock Option Agreement for Stock Options pursuant to the Zilog, Inc. 2002 Omnibus Stock Incentive Plan. (filed on June 11, 2010 as Exhibit 10.26 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.14*	Zilog, Inc. 2004 Omnibus Stock Incentive Plan. (filed on June 11, 2010 as Exhibit 10.27 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.15*	Form of Nonqualified Stock Option Agreement for the Zilog, Inc. 2004 Omnibus Stock Incentive Plan. (filed on June 11, 2010 as Exhibit 10.28 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.16*	IXYS Corporation 2011 Equity Incentive Plan (filed on August 5, 2011 as Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.17*	Notice of Stock Option Grant and Agreement for the IXYS Corporation 2011 Equity Incentive Plan (filed on August 5, 2011 as Exhibit 10.2 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.18*	IXYS Corporation 2013 Equity Incentive Plan (filed on August 9, 2013 as Exhibit 10.5 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.19*	Notice of Stock Option Grant and Agreement for IXYS Corporation 2013 Equity Incentive Plan (filed on August 9, 2013 as Exhibit 10.6 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.20*	IXYS Corporation 2016 Equity Incentive Plan (filed on August 2, 2016 as Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.21*	Notice of Stock Option Grant and Agreement for IXYS Corporation 2016 Equity Incentive Plan (filed on November 3, 2016 as Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 000-26124) and incorporated herein by reference).
10.22	Foundry Services Agreement dated as of June 27, 2013 by and between Samsung Electronics Co., Ltd. and IXYS Intl Limited (filed on December 10, 2013 as Exhibit 10.2 to the Quarterly Report on Form 10-Q/A (No. 000-26124) and incorporated herein by reference).
10.23	Product License Agreement dated as of June 27, 2013 by and between Samsung Electronics Co., Ltd. and IXYS Intl Limited (filed on December 10, 2013 as Exhibit 10.4 to the Quarterly Report on Form 10-Q/A (No. 000-26124) and incorporated herein by reference).
10.24	Loan Agreement dated April 1, 2015 by and between IXYS Semiconductor GmbH and IKB Deutsche Industriebank AG. (filed on June 11, 2015 as Exhibit 10.30 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).
10.25	Collateral Agreement dated April 21, 2015 by and among IXYS Corporation, IXYS Semiconductor GmbH and IKB Deutsche Industriebank AG. (filed on June 11, 2015 as Exhibit 10.31 to the Annual Report on Form 10-K (No. 000-26124) and incorporated herein by reference).

Exhibit No.	Title
10.26	Revolving Credit Agreement dated as of November 20, 2015 among IXYS Corporation, Bank of the West (as a Lender and as Administrative Agent), KeyBank National Association (as a Lender and as Syndication Agent), MUFG Union Bank, N.A. and Comerica Bank (filed on November 24, 2015 as Exhibit 10.1 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
10.27	Contingent Collateral Agreement dated as of November 20, 2015 among IXYS Corporation, IXYS USA, Inc., IXYS Integrated Circuits Division Inc., IXYS Long Beach, Inc., Zilog, Inc. and Bank of the West, as Administrative Agent for the Lenders (filed on November 24, 2015 as Exhibit 10.2 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
10.28	Amendment Number One to Revolving Credit Agreement dated as of February 26, 2016 among IXYS Corporation, Bank of the West (as a Lender and as Administrative Agent), KeyBank National Association (as a Lender and as Syndication Agent), MUFG Union Bank, N.A. and Comerica Bank (filed on December 21, 2016 as Exhibit 10.1 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
10.29	Amendment Number Two to Revolving Credit Agreement dated as of December 14, 2016 among IXYS Corporation, Bank of the West (as a Lender and as Administrative Agent), KeyBank National Association (as a Lender and as Syndication Agent), MUFG Union Bank, N.A. and Comerica Bank (filed on December 21, 2016 as Exhibit 10.2 to the Current Report on Form 8-K (No. 000-26124) and incorporated herein by reference).
21.1	List of Subsidiaries
23.1	Consent of BDO USA, LLP.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities and Exchange Commission.
31.2	Certification of Chief Financial Officer pursuant to the Rule 13a-14(a) of the Securities and Exchange Commission.
32.1	Certification required by Rule 13a-14(b) of the Securities and Exchange Commission and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

- * Management contract or compensatory plan or arrangement.
- (b) Exhibits. See Item 15(a)(3) above.
- (c) Financial Statement Schedules. See Item 15(a)(2) above.

Item 16. Form 10-K Summary

None.

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Corporate Information

Board of Directors

Nathan Zommer
Chairman of the Board and Chief Executive Officer

Donald L. Feucht
Investor

Samuel Kory
Consultant

S. Joon Lee
Retired Executive

Timothy A. Richardson
Chairman of the Nominating and
Corporate Governance Committee
Venture Partner of Vertical Venture Partners

Uzi Sasson
President, Chief Executive Officer and Chief Financial Officer

James M. Thorburn
Chairman of the Compensation Committee
Consultant

Kenneth D. Wong
Chairman of the Audit Committee
Senior Managing Director of Capital
Markets and Treasury of DivcoWest

Executive Officers

Nathan Zommer
Chairman of the Board and Chief Executive Officer

Uzi Sasson
President, Chief Executive Officer and Chief Financial Officer

Annual Meeting

August 31, 2017
1590 Buckeye Drive
Milpitas, CA 95035

Corporate Headquarters

1590 Buckeye Drive
Milpitas, CA 95035
(408) 457-9000

Form 10-K

A copy of our Annual Report
on Form 10-K, filed with
the Securities and Exchange
Commission, is available without
charge upon request to:

Uzi Sasson
IXYS Corporation
1590 Buckeye Drive
Milpitas, CA 95035

Or e-mail to:
investorrelations@ixys.net

Or call (408) 457-9000. A copy is
also available at the Securities and
Exchange Commission website at
www.sec.gov.

Transfer Agent

Computershare
(877) 277-9952

Mailing Address:
Computershare
P.O. Box 30170
College Station, TX 77842-3170

Overnight Correspondence Address:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845



IMPORTANT ANNUAL MEETING INFORMATION

Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas.



Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A Proposals — Management Recommends a Vote for the Nominees for Director Listed below, for Proposals 2, 3 and 5 and for every one year on Proposal 4.

1. To elect directors to hold office until the next Annual Meeting of Stockholders.

Table with 3 columns of nominees (01-08) and 2 columns of voting options (For, Withhold).

2. To approve an increase of 400,000 shares of our common stock under the Amended and Restated 1999 Employee Stock Purchase Plan.

Table with 4 columns of voting options: For, Against, Abstain, 1 Year, 2 Years, 3 Years, Abstain.

3. To approve, on an advisory basis, the compensation of the named executive officers of the Company.

Table with 3 columns of voting options: For, Against, Abstain.

4. Frequency of the named executive officer compensation vote.

Table with 4 columns of voting options: 1 Year, 2 Years, 3 Years, Abstain.

5. To ratify the selection of BDO USA, LLP as the independent registered public accounting firm of the Company for its fiscal year ending March 31, 2018.

Table with 3 columns of voting options: For, Against, Abstain.

B Non-Voting Items

Change of Address — Please print your new address below.

Empty box for change of address.

Comments — Please print your comments below.

Empty box for comments.

Meeting Attendance Mark the box to the right if you plan to attend the Annual Meeting.

Empty box for meeting attendance.

C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Date (mm/dd/yyyy) — Please print date below.

Empty box for date.

Signature 1 — Please keep signature within the box.

Empty box for signature 1.

Signature 2 — Please keep signature within the box.

Empty box for signature 2.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on August 31, 2017. Copies of the proxy statement, form of proxy and our annual report for the fiscal year ended March 31, 2017 are available at: <http://www.ixys.com/Documents/InvestorRelations/AnnualReport2017.pdf>.

▼ PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼



Proxy — IXYS CORPORATION

**1590 BUCKEYE DRIVE
MILPITAS, CALIFORNIA 95035**

**SOLICITED BY THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING
OF STOCKHOLDERS TO BE HELD ON AUGUST 31, 2017**

The undersigned hereby appoints Nathan Zommer and Uzi Sasson or either of them, and each with the power of substitution, and hereby authorizes them to represent and to vote all shares of common stock of IXYS Corporation (the "Company") held of record by the undersigned on July 3, 2017 at the Annual Meeting of Stockholders to be held at 11:00 a.m. (local time) on August 31, 2017 at 1590 Buckeye Drive, Milpitas, California 95035 and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, with discretionary authority as to any and all other matters that may properly come before the meeting.

UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSALS 2, 3 AND 5 AND FOR EVERY ONE YEAR ON PROPOSAL 4, AS MORE SPECIFICALLY DESCRIBED IN THE PROXY STATEMENT. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.

PLEASE MARK, DATE, SIGN, AND RETURN THIS PROXY CARD PROMPTLY, USING THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

(Continued and to be marked, dated and signed, on the other side)