

MICROCHIP TECHNOLOGY INC

Form 10-Q

February 06, 2012

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011.

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: 0-21184

MICROCHIP TECHNOLOGY INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

86-0629024  
(IRS Employer Identification No.)

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: MICROCHIP TECHNOLOGY INC - Form 10-Q

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

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check One)

Yes  No

Shares Outstanding of Registrant's Common Stock

| Class                           | Outstanding at January 31, 2012 |
|---------------------------------|---------------------------------|
| Common Stock, \$0.001 par value | 192,059,479 shares              |

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

INDEX

|                               | Page  |           |
|-------------------------------|---|-----------|
| PART I. FINANCIAL INFORMATION |   |           |
| <u>Item 1.</u>                | <u>Financial Statements (Unaudited)</u>   |           |
|                               | <u>Condensed Consolidated Balance Sheets – December 31, 2011 and March 31, 2011</u>                         | <u>3</u>  |
|                               | <u>Condensed Consolidated Statements of Income – Three and Nine Months Ended December 31, 2011 and 2010</u> | <u>4</u>  |
|                               | <u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended December 31, 2011 and 2010</u>       | <u>5</u>  |
|                               | <u>Notes to Condensed Consolidated Financial Statements</u>   | <u>6</u>  |
| <u>Item 2.</u>                | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                | <u>20</u> |
| <u>Item 3.</u>                | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>34</u> |
| <u>Item 4.</u>                | <u>Controls and Procedures</u>  | <u>35</u> |
| PART II. OTHER INFORMATION    |   |           |
| <u>Item 1.</u>                | <u>Legal Proceedings</u>  | <u>35</u> |
| <u>Item 1A.</u>               | <u>Risk Factors</u>   | <u>35</u> |
| <u>Item 6.</u>                | <u>Exhibits</u>   | <u>47</u> |
| <u>SIGNATURES</u>             |   |           |
| CERTIFICATIONS                |   |           |
| EXHIBITS                      |   |           |

---

Table of Contents

## Item 1. Financial Statements

## MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

## ASSETS

|   | December 31,<br>2011 | March 31,<br>2011 |
|---|----------------------|-------------------|
| Cash and cash equivalents   | \$605,725            | \$703,924         |
| Short-term investments  | 696,548              | 539,572           |
| Accounts receivable, net  | 149,277              | 181,202           |
| Inventories   | 217,853              | 180,800           |
| Prepaid expenses  | 23,706               | 22,234            |
| Deferred tax assets   | 87,337               | 88,822            |
| Other current assets  | 49,634               | 58,429            |
| Total current assets  | 1,830,080            | 1,774,983         |
| Property, plant and equipment, net  | 533,652              | 540,513           |
| Long-term investments   | 468,086              | 464,838           |
| Goodwill  | 76,098               | 76,018            |
| Intangible assets, net  | 75,051               | 77,929            |
| Other assets  | 38,184               | 33,777            |
| Total assets  | \$3,021,151          | \$2,968,058       |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                      |                   |
| Accounts payable  | \$40,039             | \$68,433          |
| Accrued liabilities   | 92,741               | 131,839           |
| Deferred income on shipments to distributors  | 115,786              | 140,044           |
| Total current liabilities   | 248,566              | 340,316           |
| Junior convertible debentures   | 353,341              | 347,334           |
| Long-term income tax payable  | 71,386               | 58,125            |
| Deferred tax liability  | 397,709              | 399,527           |
| Other long-term liabilities   | 8,844                | 10,318            |
| Stockholders' equity:   |                      |                   |
| Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding  | —                    | —                 |
| Common stock, \$0.001 par value; authorized 450,000,000 shares; 218,789,994 shares issued and 192,053,849 shares outstanding at December 31, 2011; 218,789,994 shares issued and 189,541,707 shares outstanding at March 31, 2011 | 192                  | 190               |
| Additional paid-in capital  | 1,270,343            | 1,268,128         |
| Retained earnings   | 1,485,989            | 1,428,838         |
| Accumulated other comprehensive (loss) income   | (1,755               | ) 3,357           |
| Common stock held in treasury: 26,736,145 shares at December 31, 2011; 29,248,287 shares at March 31, 2011  | (813,464             | ) (888,075        |
| Total stockholders' equity  | 1,941,305            | 1,812,438         |
| Total liabilities and stockholders' equity  | \$3,021,151          | \$2,968,058       |

See accompanying notes to condensed consolidated financial statements



Table of ContentsMICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended<br>December 31, |           | Nine Months Ended<br>December 31, |             |
|---|------------------------------------|-----------|-----------------------------------|-------------|
|   | 2011                               | 2010      | 2011                              | 2010        |
| Net sales   | \$329,156                          | \$367,824 | \$1,044,265                       | \$1,107,220 |
| Cost of sales (1)   | 145,377                            | 151,427   | 445,744                           | 458,375     |
| Gross profit  | 183,779                            | 216,397   | 598,521                           | 648,845     |
| Operating expenses:   |                                    |           |                                   |             |
| Research and development (1)                                | 44,256                             | 42,198    | 134,937                           | 126,448     |
| Selling, general and administrative (1)                     | 52,056                             | 56,100    | 161,637                           | 170,896     |
| Special (income) charges                                    | (660)                              | ) 646     | (660)                             | ) 1,679     |
|   | 95,652                             | 98,944    | 295,914                           | 299,023     |
| Operating income  | 88,127                             | 117,453   | 302,607                           | 349,822     |
| Gains (losses) on equity method investments                 | 14                                 | 280       | (60)                              | ) 185       |
| Other income (expense):                                     |                                    |           |                                   |             |
| Interest income   | 4,374                              | 3,955     | 12,408                            | 12,371      |
| Interest expense  | (8,994)                            | ) (7,672) | ) (25,920)                        | ) (23,456)  |
| Other, net  | 156                                | 375       | (1,262)                           | ) 1,747     |
| Income from continuing operations before income taxes       | 83,677                             | 114,391   | 287,773                           | 340,669     |
| Income tax provision  | 6,188                              | 12,461    | 31,704                            | 42,114      |
| Net income from continuing operations                       | 77,489                             | 101,930   | 256,069                           | 298,555     |
| Discontinued operations:                                    |                                    |           |                                   |             |
| Loss from discontinued operations before income taxes       | —                                  | (1,317)   | ) —                               | (5,372)     |
| Income tax benefit  | —                                  | (163)     | ) —                               | (239)       |
| Net loss from discontinued operations                       | —                                  | (1,154)   | ) —                               | (5,133)     |
| Net income  | \$77,489                           | \$100,776 | \$256,069                         | \$293,422   |
| Basic net income per common share – continuing operations   | \$0.40                             | \$0.54    | \$1.34                            | \$1.60      |
| Basic net loss per common share – discontinued operations   | —                                  | (0.01)    | ) —                               | (0.03)      |
| Basic net income per common share                           | \$0.40                             | \$0.54    | \$1.34                            | \$1.57      |
| Diluted net income per common share – continuing operations | \$0.38                             | \$0.52    | \$1.26                            | \$1.55      |
| Diluted net loss per common share – discontinued operations | —                                  | (0.01)    | ) —                               | (0.03)      |
| Diluted net income per common share                         | \$0.38                             | \$0.51    | \$1.26                            | \$1.53      |
| Dividends declared per common share                         | \$0.348                            | \$0.689   | \$1.041                           | \$1.374     |
| Basic common shares outstanding                             | 191,640                            | 187,488   | 190,854                           | 186,444     |
| Diluted common shares outstanding                           | 203,291                            | 196,255   | 202,686                           | 192,344     |
| (1) Includes share-based compensation expense as follows:   |                                    |           |                                   |             |
| Cost of sales   | \$1,369                            | \$1,708   | \$4,376                           | \$5,416     |
| Research and development                                    | 3,851                              | 3,324     | 10,820                            | 9,516       |
| Selling, general and administrative                         | 4,742                              | 4,377     | 13,274                            | 12,853      |

See accompanying notes to condensed consolidated financial statements



Table of ContentsMICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

|   | Nine months ended |           |
|---|-------------------|-----------|
|   | December 31,      |           |
|   | 2011              | 2010      |
| Cash flows from operating activities:   |                   |           |
| Net income  | \$256,069         | \$293,422 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |           |
| Depreciation and amortization   | 75,170            | 80,153    |
| Deferred income taxes   | 7,185             | 17,380    |
| Share-based compensation expense related to equity incentive plans                | 28,470            | 27,785    |
| Excess tax benefit from share-based compensation                                  | (441)             | (1,240)   |
| Convertible debt derivatives - revaluation and amortization                       | 427               | (192)     |
| Amortization of convertible debenture issuance costs                              | 165               | 165       |
| Amortization of debt discount on convertible debentures                           | 5,580             | 5,101     |
| Losses (gains) on equity method investments                                       | 60                | (185)     |
| Gain on sale of assets  | (212)             | (89)      |
| Unrealized impairment loss on available-for-sale investments                      | 3,213             | 1,263     |
| Special income  | (1,000)           | —         |
| Changes in operating assets and liabilities:                                      |                   |           |
| Decrease (increase) in accounts receivable  | 31,925            | (3,016)   |
| Increase in inventories   | (36,297)          | (20,779)  |
| (Decrease) increase in deferred income on shipments to distributors               | (24,258)          | 41,422    |
| Decrease in accounts payable and accrued liabilities                              | (67,198)          | (19,279)  |
| Change in other assets and liabilities  | 15,140            | 8,213     |
| Net cash provided by operating activities   | 293,998           | 430,124   |
| Cash flows from investing activities:   |                   |           |
| Purchases of available-for-sale investments                                       | (962,119)         | (859,307) |
| Sales and maturities of available-for-sale investments                            | 793,238           | 838,995   |
| Purchase of Silicon Storage Technology, Inc., net of cash received                | —                 | (112,707) |
| Investments in other assets   | (6,878)           | (14,843)  |
| Proceeds from sale of assets  | 212               | 30,559    |
| Capital expenditures  | (58,582)          | (100,114) |
| Net cash used in investing activities   | (234,129)         | (217,417) |
| Cash flows from financing activities:   |                   |           |
| Payment of cash dividend  | (198,919)         | (256,808) |
| Proceeds from sale of common stock  | 40,410            | 51,347    |
| Excess tax benefit from share-based compensation                                  | 441               | 1,240     |
| Net cash used in financing activities   | (158,068)         | (204,221) |
| Net (decrease) increase in cash and cash equivalents                              | (98,199)          | 8,486     |
| Cash and cash equivalents at beginning of period                                  | 703,924           | 492,130   |
| Cash and cash equivalents at end of period  | \$605,725         | \$500,616 |

See accompanying notes to condensed consolidated financial statements





Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1)Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its wholly-owned subsidiaries (the Company). All intercompany balances and transactions have been eliminated in consolidation. The Company owns 100% of the outstanding stock in all of its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011. The results of operations for the nine months ended