MICROCHIP TECHNOLOGY INC
Form 10-Q
August 09, 2016
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016.
OR
o 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	86-0629024
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

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

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 x No o

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 x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

(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 o No x

Shares Outstanding of Registrant's Common Stock

Class	Outstanding at July 31, 2016
Common Stock, $0.001 par value	215,288,443 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

INDEX

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

Item1. Financial Statements

ASSETS	June 30, 2016	March 31, 2016
Cash and cash equivalents	$600,526	$2,092,751
Short-term investments	1,266	353,284
Accounts receivable, net	435,511	290,183
Inventories	518,431	306,815
Prepaid expenses	51,769	41,992
Assets held for sale	18,398	—
Other current assets	47,087	11,688
Total current assets	1,672,988	3,096,713
Property, plant and equipment, net	732,816	609,396
Long-term investments	—	118,549
Goodwill	2,390,955	1,012,652
Intangible assets, net	2,403,357	606,349
Long-term deferred tax assets	68,653	14,831
Other assets	89,987	79,393
Total assets	$7,358,756	$5,537,883
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$137,614	$79,312
Accrued liabilities	222,500	119,265
Deferred income on shipments to distributors	213,171	183,432
Total current liabilities	573,285	382,009
Long-term line of credit	1,913,745	1,043,156
Senior convertible debentures	1,227,444	1,216,313
Junior convertible debentures	195,315	193,936
Long-term income tax payable	290,742	111,061
Long-term deferred tax liability	468,563	399,218
Other long-term liabilities	157,113	41,271
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; 237,497,913 shares issued and 215,030,824 shares outstanding at June 30, 2016; 227,416,789 shares issued and 204,081,727 shares outstanding at March 31, 2016	215	204
Additional paid-in capital	1,901,460	1,391,553
Common stock held in treasury: 22,467,089 shares at June 30, 2016; 23,335,062 shares at March 31, 2016	(794,287)	(820,066)
Accumulated other comprehensive loss	(14,428)	(3,357)
Retained earnings	1,439,589	1,582,585
Total stockholders' equity	2,532,549	2,150,919
Total liabilities and stockholders' equity	$7,358,756	$5,537,883

See accompanying notes to condensed consolidated financial statements

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,	
	2016	2015
Net sales	$799,411	$533,952
Cost of sales (1)	450,921	224,935
Gross profit	348,490	309,017
Research and development (1)	147,883	84,680
Selling, general and administrative (1)	157,505	66,849
Amortization of acquired intangible assets	80,171	34,612
Special charges, net	22,035	1,557
Operating expenses	407,594	187,698
Operating (loss) income	(59,104)	121,319
Losses on equity method investments	(56)	(177)
Other income (expense):		
Interest income	819	5,528
Interest expense	(34,416)	(24,052)
Other income, net	2,010	16,947
(Loss) income before income taxes	(90,747)	119,565
Income tax provision (benefit)	18,478	(10,895)
Net (loss) income from continuing operations	(109,225)	130,460
Discontinued operations:		
Loss from discontinued operations	(5,473)	—
Income tax benefit	(1,335)	—
Net loss from discontinued operations	(4,138)	—
Net (loss) income	(113,363)	130,460
Less: Net loss attributable to noncontrolling interests	—	207
Net (loss) income attributable to Microchip Technology	$(113,363)	$130,667
Basic net (loss) income per common share attributable to Microchip Technology stockholders		
Net (loss) income from continuing operations	$(0.51)	$0.65
Net loss from discontinued operations	(0.02)	—
Net (loss) income attributable to Microchip Technology	$(0.53)	$0.65
Diluted net (loss) income per common share attributable to Microchip Technology stockholders		
Net (loss) income from continuing operations	$(0.51)	$0.60
Net loss from discontinued operations	(0.02)	—
Net (loss) income attributable to Microchip Technology	$(0.53)	$0.60
Dividends declared per common share	$0.3595	$0.3575
Basic common shares outstanding	214,345	202,232
Diluted common shares outstanding	214,345	216,767

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

Cost of sales	$7,897	$1,657
Research and development	17,517	7,098
Selling, general and administrative	34,165	5,357

See accompanying notes to condensed consolidated financial statements

4

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,	
	2016	2015
Net (loss) income	$(113,363)	$130,460
Less: Net loss attributable to noncontrolling interests	—	207
Net (loss) income attributable to Microchip Technology	(113,363)	130,667
Components of other comprehensive loss:		
Available-for-sale securities:		
Unrealized holding losses, net of tax effect	(1,325)	(2,012)
Reclassification of realized transactions, net of tax effect	82	(13,959)
Actuarial losses related to defined benefit pension plans, net of tax benefit of $3,003	(6,805)	—
Change in net foreign currency translation adjustment	(3,023)	—
Other comprehensive loss, net of taxes attributable to Microchip Technology	(11,071)	(15,971)
Comprehensive (loss) income	(124,434)	114,489
Less: Comprehensive loss attributable to noncontrolling interests	—	207
Comprehensive (loss) income attributable to Microchip Technology	$(124,434)	$114,696

See accompanying notes to condensed consolidated financial statements

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net (loss) income	$(113,363)	$130,460
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	113,141	60,375
Deferred income taxes	32,906	(17,509)
Share-based compensation expense related to equity incentive plans	59,579	14,112
Excess tax benefit from share-based compensation	—	(263)
Amortization of debt discount on convertible debentures	12,106	11,772
Amortization of debt issuance costs	1,057	958
Losses on equity method investments	56	177
Gains on sale of assets	(61)	(560)
Loss on write-down of fixed assets	269	—
Impairment of intangible assets	1,984	—
Realized losses (gains) on available-for-sale investment	82	(13,959)
Realized gains on equity method investment	(468)	(2,225)
Amortization of premium on available-for-sale investments	13	2,396
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Increase in accounts receivable	(9,901)	(3,096)
Decrease (increase) in inventories	121,102	(23,893)
Increase in deferred income on shipments to distributors	29,739	1,401
(Decrease) increase in accounts payable and accrued liabilities	(18,000)	16,157
Change in other assets and liabilities	(12,270)	5,225
Operating cash flows related to discontinued operations	5,996	—
Net cash provided by operating activities	223,967	181,528
Cash flows from investing activities:		
Purchases of available-for-sale investments	(25)	(570,501)
Sales and maturities of available-for-sale investments	470,551	433,446
Sale of equity method investment	468	2,667
Acquisition of Atmel, net of cash acquired	(2,747,516)	—
Purchase of additional controlling interest in ISSC	—	(18,051)
Investments in other assets	(765)	(1,766)
Proceeds from sale of assets	52	627
Capital expenditures	(18,494)	(33,611)
Net cash used in investing activities	(2,295,729)	(187,189)
Cash flows from financing activities:		
Repayments of revolving loan under credit facility	(602,000)	(110,000)
Proceeds from borrowings on revolving loan under credit facility	1,280,000	145,000
Deferred financing costs	—	(406)
Payment of cash dividends	(77,237)	(72,331)
Proceeds from sale of common stock	4,630	3,497
Tax payments related to shares withheld for vested restricted stock units	(25,183)	(4,464)
Capital lease payments	(195)	(166)

Excess tax benefit from share-based compensation	—	263
Net cash provided by (used in) financing activities	580,015	(38,607)
Effect of foreign exchange rate changes on cash and cash equivalents	(478)	—
Net decrease in cash and cash equivalents	(1,492,225)	(44,268)
Cash and cash equivalents at beginning of period	2,092,751	607,815
Cash and cash equivalents at end of period	$600,526	$563,547

See accompanying notes to condensed consolidated financial statements

6

Table of Contents

Note 1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), 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, 2016. The results of operations for the three months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017 or for any other period.

As further discussed in Note 3, on April 4, 2016, the Company completed its acquisition of Atmel Corporation (Atmel) and the Company's first quarter fiscal 2017 financial results include Atmel's results beginning as of the acquisition date.

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

During the three months ended June 30, 2016, the Company adopted Accounting Standards Update (ASU) 2015-03-Simplifying the Presentation of Debt Issuance Costs. The new guidance was adopted on a retrospective basis and as a result, debt issuance costs historically included in other assets have been reclassified as a direct deduction from the carrying amount of the associated debt. Related prior period information included on the Company’s condensed consolidated balance sheets has been retrospectively adjusted as follows (amounts in thousands).

	As of March 31, 2016		
	As Reported	Adjustments	As Adjusted
Other assets	$109,025	$ (29,632)	$79,393
Total assets	$5,567,515	$ (29,632)	$5,537,883
Senior convertible debentures	$1,234,733	$ (18,420)	$1,216,313
Junior convertible debentures	$196,304	$ (2,368)	$193,936
Long-term line of credit	$1,052,000	$ (8,844)	$1,043,156
Total liabilities and stockholder's equity	$5,567,515	$ (29,632)	$5,537,883

During the three months ended June 30, 2016, the Company elected to early adopt ASU 2016-09, Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several aspects of the accounting for share-based payment transactions. Under this standard, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. The Company has elected to recognize forfeitures as they occur and the impact of that change in accounting policy has been recorded as a $2.0 million cumulative effect adjustment as an increase to the Company's retained earnings and a decrease to additional paid-in capital as of April 1, 2016. The Company also recorded a cumulative-effect adjustment to retained earnings for the increase of $2.3 million in long-term deferred tax assets related to the forfeiture rate reduction on outstanding share-based payment awards. Additionally, ASU 2016-09 eliminates the requirement to report excess tax benefits and certain tax deficiencies related to share-based payment transactions in additional paid-in capital. In accordance with the new standard, the Company will record excess tax benefits and tax deficiencies as income tax benefit or provision on a prospective basis in the condensed consolidated statements of operations. The standard also eliminates the requirement that excess tax benefits be realized before companies can recognize them. Accordingly, the Company has recorded a $47.2 million cumulative-effect adjustment to its retained earnings and long-term deferred tax assets as of April 1, 2016 for previously unrecognized excess tax benefits. ASU 2016-09 also requires excess tax benefits to be reported as operating activities in the statement of cash flows rather than as a financing activity. The Company has elected to apply the change in cash flow classification on a prospective basis and prior periods were not retrospectively adjusted.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB delayed the effective date of the new standard by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. In accordance with the delay, the new standard will be effective for the Company beginning no later than April 1, 2018. Early adoption is permitted, but not before the original effective date of December 15, 2016. The new standard allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08 - Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10 - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group. As described in the Company's significant accounting policies, the Company defers the revenue and cost of sales on shipments to distributors until the distributor sells the product to their end customer. Upon adoption of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, the Company will no longer defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. The Company is currently evaluating the impact that the adoption of the standards will have on its condensed consolidated financial statements. The Company has not yet elected a transition method.

In July 2015, the FASB issued ASU 2015-11-Simplifying the Measurement of Inventory. This standard requires that entities measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and is applied prospectively. Early adoption is permitted. The Company does not expect this standard to have a material impact on its condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. ASU 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

Note 3. Business Acquisitions

Acquisition of Atmel

On April 4, 2016, the Company acquired Atmel, a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately $2.98 billion in cash, issued an aggregate of 10.1 million shares of its common stock to Atmel stockholders and incurred transaction and other fees of $14.9 million. The total consideration transferred in the acquisition, including approximately $7.5 million of non-cash consideration for the exchange of certain share-based payment

Table of Contents

awards of Atmel for stock awards of the Company, was approximately $3.47 billion. The Company financed the cash portion of the purchase price using approximately $2.04 billion of cash held by certain of its foreign subsidiaries and approximately $0.94 billion from additional borrowings under its existing credit agreement. As a result of the acquisition, Atmel became a
wholly owned subsidiary of the Company. Atmel is a worldwide leader in the design and manufacture of microcontrollers, capacitive touch solutions, advanced logic, mixed-signal, nonvolatile memory and RF components. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Atmel have been included in the Company's consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Atmel's net tangible assets and intangible assets based on their estimated fair values as of April 4, 2016. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Atmel acquisition is deductible for tax purposes. The Company retained independent third-party appraisers to assist management in its valuation. The purchase price allocation has not been finalized, including the valuation of inventory, intangible assets, taxes and other assets and liabilities. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuation and estimates of useful lives.

The table below represents the preliminary allocation of the purchase price to the net assets acquired based on their estimated fair values, as well as the associated estimated useful lives of the acquired intangible assets (amounts in thousands).

Assets acquired	April 4, 2016
Cash and cash equivalents	$230,266
Accounts receivable	135,427
Inventories	333,208
Prepaid expenses and other current assets	28,360
Assets held for sale	24,394
Property, plant and equipment	129,587
Goodwill	1,378,317
Purchased intangible assets	1,880,245
Long-term deferred tax assets	49,466
Other assets	5,948
Total assets acquired	4,195,218
Liabilities assumed	
Accounts payable	(55,686)
Other current liabilities	(119,152)
Long-term line of credit	(192,000)
Deferred tax liabilities	(74,334)
Long-term income tax payable	(174,380)

Other long-term liabilities	(106,688)
Total liabilities assumed	(722,240)
Purchase price allocated	$3,472,978

9

Table of Contents

Purchased Intangible Assets	Weighted Average Useful Life (in years)	April 4, 2016 (in thousands)
Core/developed technology	11	$1,080,340
In-process technology	—	140,200
Customer-related	6	629,200
Backlog	1	28,700
Other	5	1,805
Total purchased intangible assets		$1,880,245

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles, acquisition-date backlog and other intangible assets. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized in a manner based on the expected cash flows used in the initial determination of fair value. In-process technology is capitalized until such time as the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off. Customer-related intangible assets consist of Atmel's contractual relationships and customer loyalty related to its distributor and end-customer relationships, and the fair values of the customer-related intangibles were determined based on Atmel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Atmel's historical customer information. Customer relationships are being amortized in a manner based on the estimated cash flows associated with the existing customers and anticipated retention rates. Backlog relates to the value of orders not yet shipped by Atmel at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets have a one year useful life and are being amortized on a straight-line basis over that year. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $163.5 million was established as a net deferred tax liability for the future amortization of the intangible assets.

The amount of continuing Atmel net sales and net loss included in the Company's condensed consolidated statements of operations for the three months ended June 30, 2016 was approximately $219.0 million and $163.6 million, respectively.

The following unaudited pro-forma consolidated results of operations for the three months ended June 30, 2016 and 2015 assume the closing of the Atmel acquisition occurred as of April 1, 2015. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. The pro-forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2015 or of results that may occur in the future (amounts in thousands except per share data):

	Three Months Ended	
	June 30, 2016	June 30, 2015
Net sales	$837,118	$796,122
Net income (loss) from continuing operations	$8,401	$(68,623)
Basic net income (loss) per common share	$0.04	$(0.32)
Diluted net income (loss) per common share	$0.04	$(0.32)

Acquisition of Micrel

On August 3, 2015, the Company acquired Micrel, Incorporated (Micrel), a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately $430.0 million in cash and issued an aggregate of

8.6 million shares of its common stock to Micrel shareholders. The number of shares issued in the transaction was subsequently repurchased in the open market during the year ended March 31, 2016. The total consideration transferred in the acquisition, including approximately $4.1 million of non cash consideration for the exchange of certain share-based payment awards of Micrel for stock awards of the Company, and approximately $13.1 million of cash consideration for the payout of vested employee stock awards, was approximately $816.2 million. The Company financed the cash portion of the purchase price using borrowings under its existing credit agreement. As a result of the acquisition, Micrel became a wholly owned subsidiary of the Company. Micrel's business is to design, develop, manufacture and market a range of high-performance analog, power

Table of Contents

and mixed-signal integrated circuits. Micrel's products address a wide range of end markets including industrial, automotive and communications. Micrel also manufactures custom analog and mixed-signal circuits and provides wafer foundry services for customers which produce electronic systems utilizing semiconductor manufacturing processes as well as micro-electrical mechanical system technologies. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Micrel have been included in the Company's condensed consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Micrel's net tangible assets and intangible assets based on their estimated fair values as of August 3, 2015. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Micrel acquisition is deductible for tax purposes. The Company retained an independent third-party appraiser to assist management in its valuation.

The table below represents the allocation of the purchase price, including adjustments to the purchase price allocation from the previously reported figures at March 31, 2016, to the net assets acquired based on their estimated fair values as of August 3, 2015, as well as the associated estimated useful lives of the acquired intangible assets at that date (amounts in thousands):

Assets acquired	Previously Reported March 31, 2016	Adjustments	June 30, 2016
Cash and cash equivalents	$99,196	$ —	$99,196
Accounts receivable, net	14,096	—	14,096
Inventories	73,468	—	73,468
Prepaid expenses and other current assets	10,652	—	10,652
Property, plant and equipment, net	38,566	(75)	38,491
Goodwill	440,992	(14)	440,978
Purchased intangible assets	273,500	—	273,500
Other assets	4,268	—	4,268
Total assets acquired	954,738	(89)	954,649
Liabilities assumed			
Accounts payable	(11,068)	—	(11,068)
Other current liabilities	(31,641)	89	(31,552)
Deferred tax liabilities	(88,035)	—	(88,035)
Long-term income tax payable	(7,637)	—	(7,637)
Other long-term liabilities	(127)	—	(127)
Total liabilities assumed	(138,508)	89	(138,419)
Purchase price allocated	$816,230	$ —	$816,230

Purchased Intangible Assets	Weighted Average Useful Life (in years)	August 3, 2015 (in thousands)

Core/developed technology	10	$ 175,800
In-process technology	—	21,000
Customer-related	5	71,100
Backlog	1	5,600
Total purchased intangible assets		$ 273,500

11

Table of Contents

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles and acquisition-date backlog. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized commensurate with the expected cash flows used in the initial determination of fair value. In-process technology is capitalized until such time as the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.
Customer-related intangible assets consist of Micrel's contractual relationships and customer loyalty related to its distributor and end-customer relationships, and the fair values of the customer-related intangibles were determined based on Micrel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Micrel's historical customer information. Customer relationships are being amortized in a manner consistent with the estimated cash flows associated with the existing customers and anticipated retention rates.
Backlog relates to the value of orders not yet shipped by Micrel at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets are being recognized commensurate with recognition of the revenue for the orders on which the backlog intangible assets were determined.
Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $99.7 million was established as a net deferred tax liability for the future amortization of the intangible assets offset by $11.4 million of net deferred tax assets.

Note 4. Discontinued Operations and Assets Held for Sale

Discontinued operations include the mobile touch business that the Company acquired as part of its acquisition of Atmel. The mobile touch business has been marketed for sale since the acquisition of Atmel on April 4, 2016 based on management's decision that it was not a strategic fit for the Company's product portfolio.

For financial statement purposes, the results of operations for this discontinued business has been segregated from those of the continuing operations and are presented in the Company's condensed consolidated financial statements as discontinued operations and the net assets of the remaining discontinued business has been presented as assets held for sale.

The results of discontinued operations for the three months ended June 30, 2016 are as follows (amounts in thousands):

Net sales	$9,376
Cost of sales	8,424
Operating expenses	6,425
Income tax benefit	(1,335)
Net loss from discontinued operations	$(4,138)

As of June 30, 2016, assets held for sale are comprised of the following (amounts in thousands):

Accounts receivable, net	$5,932
Inventories	4,966
Intangible assets	7,500
Total assets held for sale	$18,398

Note 5. Special Charges

The Company incurred special charges related to severance, office closing and other costs associated with its acquisition activity of $22.0 million for the three months ended June 30, 2016 (of which $17.0 million was paid during the quarter) and $1.6 million for the three months ended June 30, 2015.

Table of Contents

Note 6. Segment Information

The Company's reportable segments are semiconductor products and technology licensing. The Company does not allocate operating expenses, interest income, interest expense, other income or expense, or provision for or benefit from income taxes to these segments for internal reporting purposes, as the Company does not believe that allocating these expenses is beneficial in evaluating segment performance. Additionally, the Company does not allocate assets to segments for internal reporting purposes as it does not manage its segments by such metrics.

The following table represents net sales and gross profit for each segment for the three months ended June 30, 2016 (amounts in thousands):

	Three Months Ended June 30, 2016	
	Net Sales	Gross Profit
Semiconductor products	$778,823	$327,902
Technology licensing	20,588	20,588
	$799,411	$348,490

The following table represents net sales and gross profit for each segment for the three months ended June 30, 2015 (amounts in thousands):

	Three Months Ended June 30, 2015	
	Net Sales	Gross Profit
Semiconductor products	$510,689	$285,754
Technology licensing	23,263	23,263
	$533,952	$309,017

Note 7. Investments

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale securities at June 30, 2016 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable equity securities	$2,161	$ —	$ (895)	$ 1,266

The following is a summary of available-for-sale securities at March 31, 2016 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$468,290	$ 439	$ (99)	$468,630

Corporate bonds and debt	1,000	—	—	1,000
Marketable equity securities	2,195	8	—	2,203
	$471,485	$ 447	$ (99)	$471,833

13

Table of Contents

At June 30, 2016, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $1.3 million. At March 31, 2016, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $353.3 million and long-term investments of $118.5 million.

The Company sold available-for-sale investments for proceeds of $470.6 million during the three months ended June 30, 2016. The Company sold available-for-sale investments during the first quarter of fiscal 2017 and the fourth quarter of fiscal 2016 to finance a portion of the purchase price of its Atmel acquisition which closed on April 4, 2016. The Company sold available-for-sale investments for proceeds of $89.2 million during the three months ended June 30, 2015. The Company had no material realized gains from the sale of available-for-sale securities during the three months ended June 30, 2016. During the three months ended June 30, 2015, the Company had net realized gains of $14.0 million, from sales of available-for-sale marketable equity and debt securities. The Company determines the cost of available-for-sale debt securities sold on a FIFO basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level. Gains and losses recognized in earnings are credited or charged to other income (expense) on the consolidated statements of operations.

The following tables show all investments in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position (amounts in thousands):

	June 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$1,266	$ (895)	$ —	$ —	$1,266	$ (895)

	March 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government agency bonds	$148,562	$ (99)	$—	$ —	$148,562	$ (99)
Corporate bonds and debt	—	—	1,000	—	1,000	—
	$148,562	$ (99)	$1,000	$ —	$149,562	$ (99)

Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of June 30, 2016 and the Company's intent is to hold these investments until these assets are no longer impaired.

Note 8. Fair Value Measurements

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

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

Table of Contents

Marketable Debt Instruments

Marketable debt instruments include instruments such as corporate bonds and debt, government agency bonds, bank deposits, municipal bonds, and money market mutual funds. When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable debt instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at June 30, 2016 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents:				
Money market mutual funds	$ 147,618	$ —	$ —	$ 147,618
Deposit accounts	—	452,908	—	452,908
Short-term investments:				
Marketable equity securities	1,266	—	—	1,266
Total assets measured at fair value	$ 148,884	$ 452,908	$ —	$ 601,792

Assets measured at fair value on a recurring basis at March 31, 2016 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents:				
Money market mutual funds	$ 1,787,446	$ —	$ —	$ 1,787,446
Deposit accounts	—	305,305	—	305,305
Short-term investments:				

Marketable equity securities	2,203	—	—	2,203
Corporate bonds and debt	—	1,000	—	1,000
Government agency bonds	—	350,081	—	350,081
Long-term investments:				
Government agency bonds	—	118,549	—	118,549
Total assets measured at fair value	$1,789,649	$ 774,935	$ —	$2,564,584

There were no transfers between Level 1 and Level 2 during the three-months ended June 30, 2016 or the year ended March 31, 2016.

15

Table of Contents

Assets and Liabilities Measured and Recorded at Fair Value on a Non-Recurring Basis

The Company's non-marketable equity, cost method investments, certain acquired liabilities and non-financial assets, such as intangible assets, assets held for sale and property, plant and equipment, are recorded at fair value on a non-recurring basis. These assets are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment.

The Company's non-marketable and cost method investments are monitored on a quarterly basis for impairment charges. The fair values of these investments have been determined as Level 3 fair value measurements because the valuations use unobservable inputs that require management's judgment due to the absence of quoted market prices. There were no impairment charges recognized on these investments during each of the three-month periods ended June 30, 2016 and June 30, 2015. These investments are included in other assets on the condensed consolidated balance sheet.

The fair value measurements related to the Company's non-financial assets, such as intangible assets, assets held for sale and property, plant and equipment are based on available market prices at the measurement date based on transactions of similar assets and third-party independent appraisals, less costs to sell where appropriate. The Company classifies these measurements as Level 2.

Note 9. Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at June 30, 2016 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value excluding debt issuance costs. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit borrowings at June 30, 2016 approximated the carrying value and are considered Level 2 in the fair value hierarchy described in Note 8. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

Fair Value of Subordinated Convertible Debentures

The Company measures the fair value of its senior and junior subordinated convertible debentures for disclosure purposes. These fair values are based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as a Level 2 fair value measurement.

The following table shows the carrying amounts and fair values of the Company’s senior and junior subordinated convertible debentures as of June 30, 2016 and March 31, 2016 (amounts in thousands). As of June 30, 2016, the carrying amounts of the Company's senior and junior subordinated convertible debentures have been reduced by debt issuance costs of of $18.0 million and $2.3 million, respectively. As of March 31, 2016, the carrying amounts of the Company's senior and junior subordinated convertible debentures have been reduced by debt issuance costs of $18.4 million and $2.4 million, respectively.

	June 30, 2016		March 31, 2016	
		Fair Value		Fair Value

	Carrying Amount		Carrying Amount	
1.625% Senior Subordinated Convertible Debentures	$1,227,444	$1,919,356	$1,216,313	$1,762,088
2.125% Junior Subordinated Convertible Debentures	$195,315	$1,187,375	$193,936	$1,143,117

Table of Contents

Note 10. Accounts Receivable

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

	June 30, 2016	March 31, 2016
Trade accounts receivable	$433,766	$289,013
Other	4,135	3,710
Total accounts receivable, gross	437,901	292,723
Less allowance for doubtful accounts	2,390	2,540
Total accounts receivable, net	$435,511	$290,183

Note 11. Inventories

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

	June 30, 2016	March 31, 2016
Raw materials	$14,971	$12,179
Work in process	346,506	208,283
Finished goods	156,954	86,353
Total inventories	$518,431	$306,815

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. The inventory balance at June 30, 2016 includes a $80.9 million acquired inventory fair value adjustment resulting from the acquisition of Atmel.

Note 12. Property, Plant and Equipment

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

	June 30, 2016	March 31, 2016
Land	$73,692	$63,907
Building and building improvements	498,860	458,379
Machinery and equipment	1,739,188	1,645,617
Projects in process	109,168	99,370
Total property, plant and equipment, gross	2,420,908	2,267,273
Less accumulated depreciation and amortization	1,688,092	1,657,877
Total property, plant and equipment, net	$732,816	$609,396

Depreciation expense attributed to property, plant and equipment was $30.6 million and $24.7 million for the three months ended June 30, 2016 and June 30, 2015, respectively.

Table of Contents

Note 13. Intangible Assets and Goodwill

Intangible assets consist of the following (amounts in thousands):

	June 30, 2016		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$1,813,105	$ (301,019)	$1,512,086
Customer-related	907,742	(229,241)	678,501
Trademarks and trade names	11,700	(8,088)	3,612
Backlog	28,700	(7,075)	21,625
In-process technology	185,566	—	185,566
Distribution rights	5,580	(5,313)	267
Other	1,805	(105)	1,700
Total	$2,954,198	$ (550,841)	$2,403,357

	March 31, 2016		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$724,883	$ (255,460)	$469,423
Customer-related	278,542	(200,331)	78,211
Trademarks and trade names	11,700	(7,571)	4,129
In-process technology	54,308		