

**UNITED STATES
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, 2019

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Exchange Act). (Check One)

Yes No

Shares Outstanding of Registrant's Common Stock

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>	January 29, 2020
Common Stock, \$0.001 par value	MCHP	NASDAQ Stock Market LLC (Nasdaq Global Select Market)	239,538,076 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

INDEX

	<u>Page</u>	
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets – December 31, 2019 and March 31, 2019	3
	Condensed Consolidated Statements of Income – Three and Nine Months Ended December 31, 2019 and 2018	4
	Condensed Consolidated Statements of Comprehensive Income – Three and Nine Months Ended December 31, 2019 and 2018	5
	Condensed Consolidated Statements of Cash Flows – Nine Months Ended December 31, 2019 and 2018	6
	Condensed Consolidated Statements of Changes in Equity - Three and Nine Months Ended December 31, 2019 and 2018	8
	Notes to Condensed Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	47
Item 4.	Controls and Procedures	47
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	49
Item 1A.	Risk Factors	49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 6.	Exhibits	66

SIGNATURES

CERTIFICATIONS

EXHIBITS

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

ASSETS	December 31, 2019	March 31, 2019
Cash and cash equivalents	\$ 397.1	\$ 428.6
Short-term investments	5.2	2.3
Accounts receivable, net	807.5	880.6
Inventories	708.8	711.7
Other current assets	185.4	191.6
Total current assets	2,104.0	2,214.8
Property, plant and equipment, net	909.7	996.7
Goodwill	6,664.8	6,663.9
Intangible assets, net	5,939.5	6,685.6
Long-term deferred tax assets	1,738.4	1,677.2
Other assets	232.2	111.8
Total assets	\$ 17,588.6	\$ 18,350.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 209.3	\$ 226.4
Accrued liabilities	726.5	787.3
Current portion of long-term debt	1,400.8	1,360.8
Total current liabilities	2,336.6	2,374.5
Long-term debt	8,179.7	8,946.2
Long-term income tax payable	711.4	756.2
Long-term deferred tax liability	386.3	706.1
Other long-term liabilities	358.0	279.5
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; 253,232,909 shares issued and 239,534,856 shares outstanding at December 31, 2019; 253,232,909 shares issued and 237,589,501 shares outstanding at March 31, 2019	0.2	0.2
Additional paid-in capital	2,738.7	2,679.6
Common stock held in treasury: 13,698,053 shares at December 31, 2019; 15,643,408 shares at March 31, 2019	(520.8)	(582.2)
Accumulated other comprehensive loss	(22.0)	(20.7)
Retained earnings	3,420.5	3,210.6
Total stockholders' equity	5,616.6	5,287.5
Total liabilities and stockholders' equity	\$ 17,588.6	\$ 18,350.0

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Net sales	\$ 1,287.4	\$ 1,374.7	\$ 3,947.8	\$ 4,019.7
Cost of sales (1)	501.9	595.1	1,519.6	1,908.8
Gross profit	785.5	779.6	2,428.2	2,110.9
Research and development (1)	217.1	217.7	656.0	611.6
Selling, general and administrative (1)	170.7	174.8	510.9	515.5
Amortization of acquired intangible assets	248.7	193.7	745.4	497.2
Special charges (income) and other, net (1)	17.8	(1.3)	29.5	57.0
Operating expenses	654.3	584.9	1,941.8	1,681.3
Operating income	131.2	194.7	486.4	429.6
Losses on equity method investments	—	(0.1)	—	(0.2)
Other income (expense):				
Interest income	0.6	0.7	2.3	7.3
Interest expense	(119.7)	(137.6)	(381.9)	(366.7)
Loss on settlement of debt	—	(0.2)	(2.0)	(4.3)
Other loss, net	(1.5)	(2.5)	(0.2)	(12.4)
Income before income taxes	10.6	55.0	104.6	53.3
Income tax (benefit) provision	(300.5)	5.8	(366.1)	(127.9)
Net income	\$ 311.1	\$ 49.2	\$ 470.7	\$ 181.2
Basic net income per common share	\$ 1.30	\$ 0.21	\$ 1.97	\$ 0.77
Diluted net income per common share	\$ 1.20	\$ 0.20	\$ 1.84	\$ 0.73
Dividends declared per common share	\$ 0.3665	\$ 0.3645	\$ 1.0980	\$ 1.0920
Basic common shares outstanding	239.2	236.7	238.5	235.9
Diluted common shares outstanding	258.3	244.6	255.8	249.5

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

Cost of sales	\$ 5.7	\$ 3.4	\$ 15.8	\$ 10.9
Research and development	\$ 21.2	\$ 19.4	\$ 63.0	\$ 53.2
Selling, general and administrative	\$ 16.6	\$ 16.6	\$ 50.7	\$ 46.1
Special charges (income) and other, net	\$ —	\$ 0.2	\$ —	\$ 17.3

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)
(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Net income	\$ 311.1	\$ 49.2	\$ 470.7	\$ 181.2
Components of other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized holding losses, net of tax effect	—	—	—	(5.6)
Reclassification of realized transactions, net of tax effect	—	—	—	5.6
Defined benefit plans:				
Actuarial (losses) gains related to defined benefit pension plans, net of tax (provision) benefit	(1.6)	1.0	0.1	4.5
Reclassification of realized transactions, net of tax effect	0.2	0.3	0.6	0.8
Change in net foreign currency translation adjustment	1.7	(1.6)	(0.7)	(3.0)
Other comprehensive income (loss), net of tax effect	0.3	(0.3)	—	2.3
Comprehensive income	<u>\$ 311.4</u>	<u>\$ 48.9</u>	<u>\$ 470.7</u>	<u>\$ 183.5</u>

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)
(unaudited)

	Nine Months Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 470.7	\$ 181.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	904.7	637.7
Deferred income taxes	(404.2)	(29.1)
Share-based compensation expense related to equity incentive plans	129.5	127.5
Loss on settlement of debt	2.0	4.3
Amortization of debt discount	90.9	85.2
Amortization of debt issuance costs	12.8	12.1
Losses on equity method investments	—	0.2
Losses on sale of assets	0.4	—
Losses on write-down of fixed assets	2.7	0.5
Impairment of intangible assets	0.5	3.1
(Gains) losses on available-for-sale investments and marketable equity securities, net	(1.0)	6.8
Amortization of premium on available-for-sale investments	—	(0.2)
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Decrease in accounts receivable	73.2	189.4
Decrease in inventories	5.6	344.5
Decrease in accounts payable and accrued liabilities	(53.3)	(143.5)
Change in other assets and liabilities	(3.9)	15.2
Change in income tax payable	(58.5)	(163.5)
Net cash provided by operating activities	1,172.1	1,271.4
Cash flows from investing activities:		
Purchases of available-for-sale investments	(2.0)	(167.7)
Maturities of available-for-sale investments	—	75.7
Sales of available-for-sale investments	—	1,376.6
Acquisition of Microsemi, net of cash acquired	—	(7,850.6)
Investments in other assets	(40.5)	(12.8)
Proceeds from sale of assets	0.5	0.2
Capital expenditures	(55.7)	(188.8)
Net cash used in investing activities	(97.7)	(6,767.4)
Cash flows from financing activities:		
Proceeds from issuance of 2023 and 2021 Senior Notes	—	1,989.5
Proceeds from borrowings on term loan facility	—	3,000.0
Repayments of term loan facility	(188.0)	(287.0)
Proceeds from borrowings on revolving loan under credit facility	682.0	3,725.5
Repayments of revolving loan under credit facility	(1,324.0)	(983.0)
Repayment of debt assumed in Microsemi acquisition	—	(2,056.9)
Deferred financing costs	(1.8)	(72.7)
Payment of cash dividends	(262.1)	(257.8)
Proceeds from sale of common stock	38.8	26.9
Tax payments related to shares withheld for vested restricted stock units	(50.2)	(57.0)
Capital lease payments	(0.6)	(0.6)
Net cash (used in) provided by financing activities	(1,105.9)	5,026.9
Net decrease in cash and cash equivalents	(31.5)	(469.1)
Cash and cash equivalents, and restricted cash at beginning of period ⁽²⁾	428.6	901.3
Cash and cash equivalents, and restricted cash at end of period ⁽²⁾	\$ 397.1	\$ 432.2

[Table of Contents](#)

Nine Months Ended December 31,	
2019	2018

Supplemental disclosure of cash flow information

Non-cash activities:

Right-of-use assets obtained in exchange of lease liabilities	\$	25.1	\$	—
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Cash paid for:

Operating lease payments in operating cash flows	\$	39.3	\$	—
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(2) Schedule of restricted cash

The following table presents the balance of restricted cash which consists of cash denominated in a foreign currency and restricted in use due to a foreign taxing authority requirement (in millions):

	December 31, 2019	March 31, 2019
Restricted cash	\$ —	\$ 38.4

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)
(unaudited)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2018	253.2	\$ 2,562.7	18.2	\$ (662.6)	\$ (17.6)	\$ 1,397.3	\$ 3,279.8
Net income	—	—	—	—	—	35.7	35.7
Other comprehensive income	—	—	—	—	4.4	—	4.4
Adoption of ASU 2016-01, cumulative adjustment	—	—	—	—	(1.7)	1.7	—
Adoption of ASU 2016-16, cumulative adjustment	—	—	—	—	—	1,558.1	1,558.1
Adoption of ASC 606, cumulative adjustment	—	—	—	—	—	241.9	241.9
Non-cash consideration, exchange of employee stock awards - Microsemi acquisition	—	53.9	—	—	—	—	53.9
Proceeds from sales of common stock through employee equity incentive plans	0.7	6.4	—	—	—	—	6.4
Restricted stock unit and stock appreciation right withholdings	(0.2)	(16.8)	—	—	—	—	(16.8)
Treasury stock used for new issuances	(0.5)	(14.9)	(0.5)	14.9	—	—	—
Share-based compensation	—	45.9	—	—	—	—	45.9
Cash dividend	—	—	—	—	—	(85.5)	(85.5)
Balance at June 30, 2018	253.2	2,637.2	17.7	(647.7)	(14.9)	3,149.2	5,123.8
Net income	—	—	—	—	—	96.3	96.3
Other comprehensive loss	—	—	—	—	(1.8)	—	(1.8)
Proceeds from sales of common stock through employee equity incentive plans	0.9	13.9	—	—	—	—	13.9
Restricted stock unit and stock appreciation right withholdings	(0.2)	(20.1)	—	—	—	—	(20.1)
Treasury stock used for new issuances	(0.7)	(22.3)	(0.7)	22.3	—	—	—
Share-based compensation	—	44.0	—	—	—	—	44.0
Cash dividend	—	—	—	—	—	(85.9)	(85.9)
Balance at September 30, 2018	253.2	2,652.7	17.0	(625.4)	(16.7)	3,159.6	5,170.2
Net income	—	—	—	—	—	49.2	49.2
Other comprehensive loss	—	—	—	—	(0.3)	—	(0.3)
Proceeds from sales of common stock through employee equity incentive plans	1.0	6.6	—	—	—	—	6.6
Restricted stock unit and stock appreciation right withholdings	(0.3)	(20.1)	—	—	—	—	(20.1)
Treasury stock used for new issuances	(0.7)	(23.6)	(0.7)	23.6	—	—	—
Share-based compensation	—	41.9	—	—	—	—	41.9
Cash dividend	—	—	—	—	—	(86.4)	(86.4)
Balance at December 31, 2018	253.2	\$ 2,657.5	16.3	\$ (601.8)	\$ (17.0)	\$ 3,122.4	\$ 5,161.1
Balance at March 31, 2019	253.2	\$ 2,679.8	15.6	\$ (582.2)	\$ (20.7)	\$ 3,210.6	\$ 5,287.5
Net income	—	—	—	—	—	50.7	50.7
Other comprehensive income	—	—	—	—	(0.3)	—	(0.3)
Adoption of ASU 2018-02, cumulative adjustment	—	—	—	—	(1.3)	1.3	—

[Table of Contents](#)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount			
Proceeds from sales of common stock through employee equity incentive plans	0.5	7.3	—	—	—	—	7.3
Restricted stock unit and stock appreciation right withholdings	(0.1)	(11.4)	—	—	—	—	(11.4)
Treasury stock used for new issuances	(0.4)	(13.8)	(0.4)	13.8	—	—	—
Share-based compensation	—	41.6	—	—	—	—	41.6
Cash dividend	—	—	—	—	—	(87.1)	(87.1)
Balance at June 30, 2019	253.2	2,703.5	15.2	(568.4)	(22.3)	3,175.5	5,288.3
Net Income	—	—	—	—	—	108.9	108.9
Other comprehensive income	—	—	—	—	—	—	—
Proceeds from sales of common stock through employee equity incentive plans	0.9	20.2	—	—	—	—	20.2
Restricted stock unit and stock appreciation right withholdings	(0.2)	(15.2)	—	—	—	—	(15.2)
Treasury stock used for new issuances	(0.7)	(23.2)	(0.7)	23.2	—	—	—
Share-based compensation	—	46.4	—	—	—	—	46.4
Cash dividend	—	—	—	—	—	(87.3)	(87.3)
Balance at September 30, 2019	253.2	2,731.7	14.5	(545.2)	(22.3)	3,197.1	5,361.3
Net income	—	—	—	—	—	311.1	311.1
Other comprehensive income	—	—	—	—	0.3	—	0.3
Proceeds from sales of common stock through employee equity incentive plans	1.0	11.3	—	—	—	—	11.3
Restricted stock unit and stock appreciation right withholdings	(0.2)	(23.6)	—	—	—	—	(23.6)
Treasury stock used for new issuances	(0.8)	(24.4)	(0.8)	24.4	—	—	—
Share-based compensation	—	43.9	—	—	—	—	43.9
Cash dividend	—	—	—	—	—	(87.7)	(87.7)
Balance at December 31, 2019	253.2	\$ 2,738.9	13.7	\$ (520.8)	\$ (22.0)	\$ 3,420.5	\$ 5,616.6

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. All dollar amounts in the financial statements and tables in these notes, except per share amounts, are stated in millions of U.S. dollars unless otherwise noted.

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, 2019. As further discussed in Note 3, on May 29, 2018, the Company completed its acquisition of Microsemi Corporation (Microsemi) and the Company's fiscal 2019 financial results include Microsemi's results beginning as of such acquisition date. The results of operations for the three and nine months ended December 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2020 or for any other period.

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On April 1, 2019, the Company adopted Accounting Standards Codification Topic 842, *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 Topic 606, *Revenue from Contracts with Customers*. Topic 842 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. The Company adopted Topic 842 using the retrospective cumulative effect adjustment transition method by recording right-of-use assets of \$124.6 million, accrued lease liabilities of \$39.4 million and other long-term liabilities of \$97.9 million. Under this method, periods prior to fiscal 2020 remain unchanged. The Company applied the package of practical expedients to leases that commenced before the effective date whereby the Company elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. See Note 9 for further information and disclosures related to the adoption of this standard.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance provides an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Act"). This ASU is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted the standard and elected to reclassify the income tax effects of the Act from accumulated other comprehensive income to retained earnings effective April 1, 2019. The cumulative impact of adoption resulted in an immaterial change to retained earnings.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12-*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance enhances and simplifies various aspects of the income tax accounting standard ASC 740, including requirements related to hybrid tax regimes, the tax basis step-up in goodwill obtained in a transaction that is not a business combination, separate financial statements of entities not subject to tax, the intraperiod tax allocation exception to the incremental approach, ownership changes in investments, interim-period accounting for enacted changes in tax law, and the year-to-date loss limitation in interim-period tax accounting. The amendments are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

[Table of Contents](#)

In January 2017, the FASB issued ASU 2017-04-*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The amendment is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2019, and early adoption is permitted. The Company does not expect this standard to have an impact on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13-*Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which required waiting to recognize a loss until it is probable of having been incurred. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually and can include forecasted information. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, and permits early adoption, but not before December 15, 2018. The standard is to be applied using a modified retrospective approach. 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 Microsemi

On May 29, 2018, the Company completed its acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. The Company paid an aggregate of approximately \$8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately \$53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards of the Company, was approximately \$8.24 billion. In addition to the consideration transferred, the Company recognized in its consolidated financial statements \$3.23 billion in liabilities of Microsemi consisting of debt, taxes payable and deferred, restructuring, and contingent and other liabilities of which \$2.06 billion of existing debt was paid off. The Company financed the purchase price using approximately \$8.10 billion of borrowings consisting of \$3.10 billion under its amended and restated revolving line of credit (the "Revolving Credit Facility"), \$3.00 billion of term loans ("Term Loan Facility") provided under the Company's amended and restated credit agreement (the "Credit Agreement"), and \$2.00 billion in newly issued senior secured notes. The Company incurred \$22.0 million in acquisition costs related to the acquisition. As a result of the acquisition, Microsemi became a wholly owned subsidiary of the Company. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. 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 Microsemi 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 Microsemi's net tangible assets and intangible assets based on their estimated fair values as of May 29, 2018. 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 Microsemi acquisition is deductible for tax purposes. The Company retained independent third-party appraisers to assist management in its valuation of the acquired assets and liabilities.

Table of Contents

The table below represents the 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 (in millions).

Assets acquired

Cash and cash equivalents	\$	340.0
Accounts receivable		215.6
Inventories		576.2
Other current assets		85.2
Property, plant and equipment		201.5
Goodwill		4,364.9
Purchased intangible assets		5,634.5
Long-term deferred tax assets		5.9
Other assets		53.3
Total assets acquired		<u>11,477.1</u>

Liabilities assumed

Accounts payable		(233.8)
Other current liabilities		(149.3)
Long-term debt		(2,056.9)
Deferred tax liabilities		(565.1)
Long-term income tax payable		(177.7)
Other long-term liabilities		(49.8)
Total liabilities assumed		<u>(3,232.6)</u>
Purchase price allocated	\$	<u>8,244.5</u>

Purchased Intangible Assets

	Weighted Average Useful Life (in years)	May 29, 2018 (in millions)
Core and developed technology	15	\$ 4,569.1
In-process research and development	—	847.1
Customer-related	12	200.2
Backlog	1	12.3
Other	4	5.8
Total purchased intangible assets		<u>\$ 5,634.5</u>

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 research and development 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 Microsemi's contractual relationships and customer loyalty related to its distributor and end-customer relationships. The fair values of the customer-related intangibles were determined using the distributor method, a form of the income approach based on distributor margin and expected attrition and revenue growth for Microsemi's existing customers as of the acquisition date. Customer relationships are being amortized in a manner based on the estimated cash flows associated with the existing customers and anticipated retention rates.

[Table of Contents](#)

Backlog relates to the value of orders not yet shipped by Microsemi at the acquisition date, and the fair values were determined 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 period.

The total weighted average amortization period of intangible assets acquired as a result of the Microsemi transaction is 13 years. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately \$856.7 million was established as a net deferred tax liability for the future amortization of the intangible assets.

Note 4. 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 and nine months ended December 31, 2019 (in millions):

	Three Months Ended December 31, 2019		Nine Months Ended December 31, 2019	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 1,257.0	\$ 755.1	\$ 3,875.6	\$ 2,356.0
Technology licensing	30.4	30.4	72.2	72.2
Total	<u>\$ 1,287.4</u>	<u>\$ 785.5</u>	<u>\$ 3,947.8</u>	<u>\$ 2,428.2</u>

The following table represents net sales and gross profit for each segment for the three and nine months ended December 31, 2018 (in millions):

	Three Months Ended December 31, 2018		Nine Months Ended December 31, 2018	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 1,331.3	\$ 736.2	\$ 3,911.4	\$ 2,002.6
Technology licensing	43.4	43.4	108.3	108.3
Total	<u>\$ 1,374.7</u>	<u>\$ 779.6</u>	<u>\$ 4,019.7</u>	<u>\$ 2,110.9</u>

Note 5. Net Sales

The following table represents the Company's net sales by product line (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Microcontrollers	\$ 685.8	\$ 716.9	\$ 2,091.8	\$ 2,218.0
Analog, interface, mixed signal and timing products	363.3	396.6	1,143.6	1,147.7
Field-programmable gate array products	92.6	97.7	276.8	206.4
Licensing, memory and other	145.7	163.5	435.6	447.6
Total net sales	\$ 1,287.4	\$ 1,374.7	\$ 3,947.8	\$ 4,019.7

The product lines listed above are included entirely in the Company's semiconductor product segment with the exception of the licensing, memory and other product line, which includes products from both the semiconductor product and technology licensing segments.

The following table represents the Company's net sales by contract type (in millions).

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Distributors	\$ 638.8	\$ 686.3	\$ 1,970.0	\$ 2,044.4
Direct customers	618.2	645.0	1,905.6	1,867.0
Licensees	30.4	43.4	72.2	108.3
Total net sales	\$ 1,287.4	\$ 1,374.7	\$ 3,947.8	\$ 4,019.7

Distributors are customers that buy products with the intention of reselling them. Distributors generally have a distributor agreement with the Company to govern the terms of the relationship. Direct customers are non-distributor customers, which generally do not have a master sales agreement with the Company. The Company's direct customers primarily consist of original equipment manufacturers (OEMs) and, to a lesser extent, contract manufacturers. Licensees are customers of the Company's technology licensing segment, which include purchasers of intellectual property and customers that have licensing agreements to use the Company's SuperFlash® embedded flash and Smartbits® one time programmable NVM technologies. All of the contract types listed in the table above are included in the Company's semiconductor product segment with the exception of licensees, which is the technology licensing segment.

Substantially all of the Company's net sales are recognized from contracts with customers.

Semiconductor Product Segment

For contracts related to the purchase of semiconductor products, the Company satisfies its performance obligation when control of the ordered product transfers to the customer. The timing of the transfer of control depends on the agreed upon shipping terms with the customer, but generally occurs upon shipment, which is when physical possession of the product has been transferred and legal title of the product transfers to the customer. Payment is generally due within 30 days of the ship date. Payment is generally collected after the Company satisfies its performance obligation, therefore contract liabilities are uncommon. Also, the Company usually does not record contract assets because the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, a receivable is more commonly recorded than a contract asset. Refer to Note 8 for the opening and closing balances of the Company's receivables. As contracts with customers generally have an expected duration of one year or less, the balance of open performance obligations as of period end that will be recognized as revenue subsequent to December 31, 2020 is immaterial.

Generally, there is only a single performance obligation in the Company's contracts with customers for semiconductor products; as such, the entire transaction price is allocated to the single performance obligation and allocation of the transaction price to individual performance obligations is not necessary. The consideration received from customers is fixed, with the exception of consideration from certain distributors. Certain of the Company's distributors are granted price concessions and

[Table of Contents](#)

return rights, which result in variable consideration. The amount of revenue recognized for sales to these certain distributors is adjusted for estimates of the price concessions and return rights that are expected to be claimed. These estimates are based on the recent history of price concessions and stock rotations.

Technology Licensing Segment

The technology licensing segment includes sales and licensing of the Company's intellectual property. For contracts related to the sale of the Company's intellectual property, the Company satisfies its performance obligation and recognizes revenue when control of the intellectual property transfers to the customer. For contracts related to the licensing of the Company's technology, the Company satisfies its performance obligation and recognizes revenue as usage of the license occurs. The transaction price is fixed by the license agreement. Payment is collected after the Company satisfies its performance obligation, and therefore no contract liabilities are recorded. The Company does not record contract assets due to the fact that the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, the Company recognizes a receivable instead of a contract asset. Refer to Note 8 for the opening and closing balances of the Company's receivables.

Note 6. Special Charges (Income) and Other, Net

The following table summarizes activity included in the "special charges (income) and other, net" caption on the Company's condensed consolidated statements of income (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Restructuring				
Employee separation costs	\$ 3.4	\$ 3.3	\$ 10.7	\$ 60.5
Impairment charges	2.7	0.2	3.2	3.7
Contract exit costs	10.3	0.1	10.8	(2.9)
Other	1.4	0.1	2.6	0.7
Legal contingencies	—	(5.0)	2.2	(5.0)
Total	\$ 17.8	\$ (1.3)	\$ 29.5	\$ 57.0

The Company continuously evaluates its existing operations in an attempt to identify and realize cost savings opportunities and operational efficiencies. This same approach is applied to businesses that are acquired by the Company and often the operating models of acquired companies are not as efficient as the Company's operating model which enables the Company to realize significant savings and efficiencies. As a result, following an acquisition, the Company will from time to time incur restructuring expenses; however, the Company is often not able to estimate the timing or amount of such costs in advance of the period in which they occur. The primary reason for this is that the Company regularly reviews and evaluates each position, contract and expense against the Company's strategic objectives, long-term operating targets and other operational priorities. Decisions related to restructuring activities are made on a "rolling basis" during the course of the integration of an acquisition whereby department managers, executives and other leaders work together to evaluate each of these expenses and make recommendations. As a result of this approach, at the time of an acquisition, the Company is not able to estimate the future amount of expected employee separation or exit costs that it will incur in connection with its restructuring activities.

During the three months ended December 31, 2019, the Company incurred costs of \$11.7 million associated with restructuring certain of its wafer fabrication operations and the Company estimates that it will incur less than \$10.0 million within the next year for the remaining associated costs of these restructuring activities. The Company's other restructuring expenses during the nine months ended December 31, 2019 and December 31, 2018 were primarily related to the Company's most recent business acquisitions, and resulted from workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations. These expenses were for employee separation costs and intangible asset impairment charges. The impairment charges in fiscal 2019 were primarily recognized as a result of writing off intangible assets purchased from Microsemi prior to the close of the acquisition and other intangible assets that were impaired as a result of changes in the combined product roadmaps after the acquisition that affected the use and life of the assets. Additional costs will be incurred in the future as additional synergies or operational efficiencies are identified in connection with the Microsemi transaction or other previous acquisitions. The Company is not able to estimate the amount of other such future expenses at this time.

[Table of Contents](#)

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company incurred \$116.3 million in costs since the start of fiscal 2017 in connection with employee separation activities, of which \$3.4 million and \$10.7 million were incurred during the three and nine months ended December 31, 2019, respectively, and \$3.3 million and \$60.5 million were incurred during the three and nine months ended December 31, 2018, respectively. The Company could incur future expenses as additional synergies or operational efficiencies are identified. Beyond what is already accrued, the Company is not able to estimate future expenses, if any, to be incurred in employee separation costs. The Company has incurred \$50.9 million in costs in connection with contract exit activities since the start of fiscal 2017 which includes expense of \$10.3 million and \$10.8 million for the three and nine months ended December 31, 2019, respectively, compared to an expense of \$0.1 million and income of \$2.9 million for three and nine months ended December 31, 2018, respectively.

The following is a roll forward of accrued restructuring charges for the nine months ended December 31, 2019 (in millions):

	Restructuring		Non-Restructuring	
	Employee Separation Costs	Exit Costs	Exit Costs	Total
Balance at March 31, 2019	\$ 12.9	\$ 19.2	\$ 15.7	\$ 47.8
Charges	10.7	10.8	—	21.5
Payments	(8.9)	(4.3)	(3.4)	(16.6)
Non-cash - Other	(0.1)	(0.6)	0.5	(0.2)
Effect of adoption of ASC 842	—	(12.5)	—	(12.5)
Balance at December 31, 2019	\$ 14.6	\$ 12.6	\$ 12.8	\$ 40.0
Current				\$ 22.6
Non-current				17.4
Total				\$ 40.0

The liability for restructuring and other exit costs of \$40.0 million is included in accrued liabilities and other long-term liabilities, on the Company's consolidated balance sheets as of December 31, 2019.

Note 7. Fair Value of Financial Instruments

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.

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 December 31, 2019 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. 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.

The fair values of the Company's revolving credit facility and term loan facility are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. 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 revolving credit facility and term loan facility at December 31, 2019 approximated the carrying value excluding debt issuance costs and are considered Level 2 in the fair value hierarchy. The Company measures the fair value of its senior and junior subordinated convertible debt and senior secured notes for disclosure purposes. These fair values are

[Table of Contents](#)

based on observable market prices for this debt, which is 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 debt obligations as of December 31, 2019 and March 31, 2019 (in millions).

	December 31, 2019		March 31, 2019	
	Carrying Amount ⁽¹⁾	Fair Value	Carrying Amount ⁽¹⁾	Fair Value
Revolving Credit Facility	\$ 2,610.9	\$ 2,624.5	\$ 3,251.8	\$ 3,266.5
Term Loan Facility	\$ 1,708.2	\$ 1,723.5	\$ 1,892.1	\$ 1,911.5
2023 Senior Secured Notes	\$ 988.0	\$ 1,058.8	\$ 985.4	\$ 1,020.1
2021 Senior Secured Notes	\$ 991.6	\$ 1,022.5	\$ 987.4	\$ 1,008.1
2017 Senior Convertible Debt	\$ 1,537.7	\$ 2,968.1	\$ 1,493.6	\$ 2,285.4
2015 Senior Convertible Debt	\$ 1,400.8	\$ 3,710.8	\$ 1,360.8	\$ 2,810.6
2017 Junior Convertible Debt	\$ 343.3	\$ 994.1	\$ 335.9	\$ 740.8

⁽¹⁾ The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 12 Debt and Credit Facility for further information).

Note 8. Other Financial Statement Details

Accounts Receivable

Accounts receivable consists of the following (in millions):

	December 31, 2019	March 31, 2019
Trade accounts receivable	\$ 799.3	\$ 875.8
Other	11.5	6.8
Total accounts receivable, gross	810.8	882.6
Less allowance for doubtful accounts	3.3	2.0
Total accounts receivable, net	\$ 807.5	\$ 880.6

Inventories

The components of inventories consist of the following (in millions):

	December 31, 2019	March 31, 2019
Raw materials	\$ 85.6	\$ 74.5
Work in process	460.0	413.0
Finished goods	163.2	224.2
Total inventories	\$ 708.8	\$ 711.7

Inventories are valued at the lower of cost and net realizable value 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.

Property, Plant and Equipment

Table of Contents

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

	December 31, 2019	March 31, 2019
Land	\$ 83.4	\$ 83.4
Building and building improvements	657.6	647.6
Machinery and equipment	2,130.2	2,095.5
Projects in process	108.7	119.2
Total property, plant and equipment, gross	2,979.9	2,945.7
Less accumulated depreciation and amortization	2,070.2	1,949.0
Total property, plant and equipment, net	\$ 909.7	\$ 996.7

Depreciation expense attributed to property, plant and equipment was \$41.4 million and \$127.1 million for the three and nine months ended December 31, 2019, respectively, compared to \$47.0 million and \$132.2 million for the three and nine months ended December 31, 2018, respectively.

Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	December 31, 2019	March 31, 2019
Accrued compensation and benefits	\$ 150.8	\$ 133.2
Income taxes payable	10.8	46.9
Sales related reserves	303.7	366.9
Current portion of lease liabilities	42.9	—
Accrued expenses and other liabilities	218.3	240.3
Total accrued liabilities	\$ 726.5	\$ 787.3

Note 9. Leases

Effective April 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective approach. The Company elected the package of practical expedients permitted under the transition guidance with the new standard, which among other things, allows the Company to carry forward historical lease classification. The Company elected to apply the short-term measurement and recognition exemption in which right-of-use (“ROU”) assets and lease liabilities are not recognized for short-term leases. Adoption of this standard resulted in recording of net operating lease ROU assets and corresponding operating lease liabilities of \$124.6 million and \$137.3 million, respectively. The net ROU asset includes the effect of reclassifying a portion of facilities-related restructuring reserves as an offset in accordance with the transition guidance. The standard did not materially affect the condensed consolidated statements of income and had no impact on the condensed consolidated statements of cash flows.

The Company determines if an arrangement is a lease at its inception. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Operating lease ROU assets also include any initial direct costs and prepayments less lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. As the Company's leases generally do not provide an implicit rate, the Company uses its collateralized incremental borrowing rate based on the information available at the lease commencement date, including lease term, in determining the present value of lease payments. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Operating lease arrangements are comprised primarily of real estate and equipment agreements for which the ROU assets are included in other assets and the corresponding lease liabilities, depending on their maturity, are included in accrued liabilities or other long-term liabilities in the condensed consolidated balance sheets. There are certain immaterial finance leases recorded in the condensed consolidated balance sheets. The Company has elected to account for the lease and non-lease components as a single lease component.

[Table of Contents](#)

The details of the Company's operating leases are as follows (in millions):

	Three Months Ended December 31,	Nine Months Ended December 31,
	2019	2019
Operating lease expense	\$ 12.2	\$ 36.7
Variable lease expense	2.6	8.1
Short-term lease expense	2.5	7.3
Total lease expense	<u>\$ 17.3</u>	<u>\$ 52.1</u>

The Company's leases are included as a component of the following balance sheet lines (in millions):

	December 31, 2019
Other assets:	
Right-of-use assets	\$ 135.7
Total lease assets	<u>\$ 135.7</u>
Accrued liabilities:	
Current portion of lease liabilities	\$ 42.9
Other long-term liabilities:	
Non-current portion of lease liabilities	111.0
Total lease liabilities	<u>\$ 153.9</u>

The following table presents the maturities of lease liabilities as of December 31, 2019 (in millions):

Fiscal year ending March 31,	Operating Leases
Remainder of 2020	\$ 14.7
2021	45.6
2022	40.4
2023	22.8
2024	14.9
Thereafter	29.9
Total lease payments	<u>\$ 168.3</u>
Less: Imputed lease interests	14.4
Total lease liabilities	<u>\$ 153.9</u>

The following table represents future minimum lease obligations under non-cancelable operating leases as of March 31, 2019 (in millions):

Fiscal year ending March 31,	Operating Leases
2020	\$ 49.0
2021	38.2
2022	30.3
2023	18.0
2024	9.1
Thereafter	22.6
Total	<u>\$ 167.2</u>

[Table of Contents](#)

The Company's weighted-average remaining lease-term and weighted-average discount rate are as follows (in millions):

	As of December 31, 2019
Weighted average remaining lease-term	4.5
Weighted average discount rate	4.6%

Note 10. Intangible Assets and Goodwill

Intangible assets consist of the following (in millions):

	December 31, 2019		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$ 7,345.0	\$ (1,733.8)	\$ 5,611.2
Customer-related	916.7	(651.7)	265.0
In-process research and development	8.8	—	8.8
Distribution rights and other	90.6	(36.1)	54.5
Total	\$ 8,361.1	\$ (2,421.6)	\$ 5,939.5

	March 31, 2019		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$ 7,339.2	\$ (1,102.2)	\$ 6,237.0
Customer-related	917.1	(544.0)	373.1
In-process research and development	7.7	—	7.7
Distribution rights and other	81.4	(13.6)	67.8
Total	\$ 8,345.4	\$ (1,659.8)	\$ 6,685.6

The following is an expected amortization schedule for the intangible assets for remainder of fiscal 2020 through fiscal 2024, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending March 31,	Projected Amortization Expense
2020	\$ 259.0
2021	\$ 972.9
2022	\$ 902.2
2023	\$ 708.4
2024	\$ 616.3

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. Amortization expense attributed to intangible assets are assigned to cost of sales and operating expenses as follows (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Amortization expense charged to cost of sales	\$ 2.5	\$ 1.8	\$ 7.1	\$ 4.9
Amortization expense charged to operating expense	256.1	195.1	770.5	500.6
Total amortization expense	\$ 258.6	\$ 196.9	\$ 777.6	\$ 505.5

The Company recognized impairment charges of \$0.5 million in the nine months ended December 31, 2019, compared to \$3.1 million in the nine months ended December 31, 2018. The impairment charges in the nine months ended December 31, 2018 were recognized as a result of writing off intangible assets purchased from Microsemi prior to the close of the acquisition

[Table of Contents](#)

and as a result of changes in the combined product roadmaps after the acquisition that affected the use and life of these assets. There were no impairment charges in the three months ended December 31, 2019 and December 31, 2018.

Goodwill activity for the nine months ended December 31, 2019 was as follows (amounts in millions):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2019	\$ 6,644.7	\$ 19.2
Additions	0.9	—
Balance at December 31, 2019	\$ 6,645.6	\$ 19.2

At March 31, 2019, the Company applied a qualitative goodwill impairment test to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through December 31, 2019, the Company has never recorded an impairment charge against its goodwill balance.

Note 11. Income Taxes

The Company accounts for income taxes in accordance with ASC 740. The provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. The Company's effective tax rate used for interim periods is based on an estimated annual effective tax rate including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. The Company's effective tax rates for the nine months ended December 31, 2019 and December 31, 2018 were not meaningful due to the amount of pre-tax income, and income tax benefits recorded during the period.

The Company's effective tax rates for the three and nine months ended December 31, 2019 were lower compared to the prior year primarily due to significant non-recurring discrete benefits related to releases of uncertain tax positions primarily due to statute lapses, non-recurring benefits associated with restructuring activities, and Microsemi integration matters. The Company's effective tax rate for the nine months ended December 31, 2019 includes a \$337.0 million tax benefit related to the intra-group transfer of certain intellectual property rights, which reduced the Company's effective tax rate for the nine months ended December 31, 2019 by 322.2%. The Company's effective tax rate is different than the statutory rates in the U.S. due to foreign income taxed at different rates than the U.S., changes in uncertain tax benefit positions, changes to valuation allowances, generation of tax credits, and the impact of the Global Intangible Low-Taxed Income ("GILTI") tax in the United States. In addition, the Company has numerous tax holidays it receives related to its Thailand manufacturing operations based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future. Microsemi was previously granted a tax holiday in Malaysia, which expired in December 2019. The Company does not expect the expiration to have a significant impact on its financial statements. The material components of foreign income taxed at a rate lower than the U.S. are earnings accrued in Thailand, Malta and Ireland.

The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2007 and later tax years remain open for examination by tax authorities. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2007.

The Company records benefits for uncertain tax positions based on an assessment of whether it is more likely than not that the tax positions will be sustained based on their technical merits under currently enacted law. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If this threshold is met, the Company recognizes the largest amount of the tax benefit that is more likely than not to be realized upon ultimate settlement. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax laws applied to the facts of each matter.

The Company believes it maintains appropriate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve amounts ultimately prove to be unnecessary, the resulting reversal of such reserves could result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

Note 12. Debt and Credit Facility

[Table of Contents](#)

Debt obligations included in the condensed consolidated balance sheets consisted of the following (in millions):

	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance ⁽¹⁾	December 31, 2019	March 31, 2019
<i>Senior Secured Indebtedness</i>					
Revolving Credit Facility				\$ 2,624.5	\$ 3,266.5
Term Loan Facility				1,723.5	1,911.5
2023 Notes, maturing June 1, 2023 ("2023 Notes")	4.333%	4.7%		1,000.0	1,000.0
2021 Notes, maturing June 1, 2021 ("2021 Notes")	3.922%	4.5%		1,000.0	1,000.0
Total Senior Secured Indebtedness				6,348.0	7,178.0
<i>Senior Subordinated Convertible Debt - Principal Outstanding</i>					
2017 Senior Convertible Debt, maturing February 15, 2027 ("2017 Senior Convertible Debt")	1.625%	6.0%	\$1,396.3	2,070.0	2,070.0
2015 Senior Convertible Debt, maturing February 15, 2025 ("2015 Senior Convertible Debt")	1.625%	5.9%	\$1,160.1	1,725.0	1,725.0
<i>Junior Subordinated Convertible Debt - Principal Outstanding</i>					
2017 Junior Convertible Debt, maturing February 15, 2037 ("2017 Junior Convertible Debt")	2.250%	7.4%	\$321.1	686.3	686.3
Total Convertible Debt				4,481.3	4,481.3
Gross long-term debt including current maturities				10,829.3	11,659.3
Less: Debt discount (2)				(1,177.9)	(1,268.7)
Less: Debt issuance costs (3)				(70.9)	(83.6)
Net long-term debt including current maturities				9,580.5	10,307.0
Less: Current maturities (4)				(1,400.8)	(1,360.8)
Net long-term debt				\$ 8,179.7	\$ 8,946.2

⁽¹⁾ As each of the convertible debt instruments may be settled in cash upon conversion, for accounting purposes, they were bifurcated into a liability component and an equity component, which are both initially recorded at fair value. The amount allocated to the equity component is the difference between the principal value of the instrument and the fair value of the liability component at issuance. The resulting debt discount is being amortized to interest expense at the respective effective interest rate over the contractual term of the debt.

⁽²⁾ The unamortized discount consists of the following (in millions):

	December 31, 2019	March 31, 2019
2023 Notes	\$ (3.7)	\$ (4.4)
2021 Notes	(2.6)	(3.8)
2017 Senior Convertible Debt	(518.9)	(561.9)
2015 Senior Convertible Debt	(312.8)	(351.4)
2017 Junior Convertible Debt	(339.9)	(347.2)
Total unamortized discount	\$ (1,177.9)	\$ (1,268.7)

Table of Contents

(3) Debt issuance costs consist of the following (in millions):

	December 31, 2019	March 31, 2019
Revolving Credit Facility	\$ (13.6)	\$ (14.7)
Term Loan Facility	(15.3)	(19.4)
2023 Notes	(8.3)	(10.2)
2021 Notes	(5.8)	(8.8)
2017 Senior Convertible Debt	(13.4)	(14.5)
2015 Senior Convertible Debt	(11.4)	(12.8)
2017 Junior Convertible Debt	(3.1)	(3.2)
Total debt issuance costs	<u>\$ (70.9)</u>	<u>\$ (83.6)</u>

(4) Current maturities consist of the liability component of the 2015 Senior Convertible Debt as the debentures were convertible as of December 31, 2019 and March 31, 2019.

Expected maturities relating to the Company's long-term debt as of December 31, 2019 are as follows (in millions):

Fiscal year ending March 31,	Expected Maturities
2020	\$ —
2021	—
2022	1,000.0
2023	—
2024	3,624.5
Thereafter	6,204.8
Total	<u>\$ 10,829.3</u>

Ranking of Convertible Debt - The Senior Subordinated Convertible Debt and Junior Subordinated Convertible Debt (collectively, the Convertible Debt) are unsecured obligations which are subordinated in right of payment to the amounts outstanding under the Company's Credit Facility and Senior Secured Notes (as defined below). The Junior Subordinated Convertible Debt is expressly subordinated in right of payment to any existing and future senior debt of the Company (including the Credit Facility, the Senior Secured Notes, and the Senior Subordinated Convertible Debt) and is structurally subordinated in right of payment to the liabilities of the Company's subsidiaries. The Senior Subordinated Convertible Debt is subordinated to the Credit Facility and the Senior Secured Notes; ranks senior to the Company's indebtedness that is expressly subordinated in right of payment to it, including the Junior Subordinated Convertible Debt; ranks equal in right of payment to any of the Company's unsubordinated indebtedness that does not provide that it is senior to the Senior Subordinated Convertible Debt; ranks junior in right of payment to any of the Company's secured, unsubordinated indebtedness to the extent of the value of the assets securing such indebtedness; and is structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Table of Contents

Summary of Conversion Features - Each series of Convertible Debt is convertible, subject to certain conditions, into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at specified Conversion Rates (see table below), adjusted for certain events including the declaration of cash dividends. Except during the three-month period immediately preceding the maturity date of the applicable series of Convertible Debt, each series of Convertible Debt is convertible only upon the occurrence of (1) such time as the closing price of the Company's common stock exceeds the Conversion Price (see table below) by 130% for 20 days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter or (2) during the 5 business day period after any 10 consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day or (3) upon the occurrence of certain corporate events specified in the indenture of such series of Convertible Debt. In addition, for each series, if at the time of conversion the applicable price of the Company's common stock exceeds the applicable Conversion Price at such time, the applicable Conversion Rate will be increased by up to an additional maximum incremental shares rate, as determined pursuant to a formula specified in the indenture for the applicable series of Convertible Debt, and as adjusted for cash dividends paid since the issuance of such series of Convertible Debt. However, in no event will the applicable Conversion Rate exceed the applicable Maximum Conversion Rate specified in the indenture for the applicable series of Convertible Debt (see table below).

The following table sets forth the applicable Conversion Rates adjusted for dividends declared since issuance of such series of Convertible Debt and the applicable Incremental Share Factors and Maximum Conversion Rates as adjusted for dividends paid since the applicable issuance date:

	Dividend adjusted rates as of December 31, 2019			
	Conversion Rate	Approximate Conversion Price	Incremental Share Factor	Maximum Conversion Rate
2017 Senior Convertible Debt ⁽¹⁾	10.4213	\$ 95.96	5.2106	14.8503
2015 Senior Convertible Debt ⁽¹⁾	16.2513	\$ 61.53	8.1256	22.7517
2017 Junior Convertible Debt ⁽¹⁾	10.6074	\$ 94.27	5.3038	14.8503

⁽¹⁾ As of December 31, 2019, the 2017 Senior Convertible Debt and the 2017 Junior Convertible Debt were not convertible. As of December 31, 2019, the holders of the 2015 Senior Convertible Debt have the right to convert their debentures between January 1, 2020 and March 31, 2020 because the Company's common stock price has exceeded the Conversion Price by 130% for the specified period of time during the quarter ended December 31, 2019. If a holder of 2015 Senior Convertible Debt converted their debentures on October 1, 2019, the adjusted Conversion Rate would be increased to 18.9958 to include an additional maximum incremental share rate per the terms of the indenture. As of December 31, 2019, the 2017 Senior Convertible Debt, 2015 Senior Convertible Debt and 2017 Junior Convertible Debt had a value if converted above par of \$283.5 million, \$1.82 billion and \$114.1 million, respectively.

The Company may not redeem any series of Convertible Debt prior to the relevant maturity date and no sinking fund is provided for any series of Convertible Debt. Upon the occurrence of a fundamental change as defined in the applicable indenture of such series of Convertible Debt, holders of such series may require the Company to purchase all or a portion of their Convertible Debt for cash at a price equal to 100% of the principal amount plus any accrued and unpaid interest.

Interest expense consists of the following (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Debt issuance amortization	\$ 3.3	\$ 3.6	\$ 9.9	\$ 9.4
Debt discount amortization	0.7	0.7	2.1	1.5
Interest expense	64.1	84.2	217.7	210.1
Total interest expense on Senior Secured Indebtedness	68.1	88.5	229.7	221.0
Debt issuance amortization	1.0	0.9	2.9	2.7
Debt discount amortization	30.0	28.3	88.8	83.7
Coupon interest expense	19.3	19.3	57.9	57.8
Total interest expense on Convertible Debt	50.3	48.5	149.6	144.2
Other interest expense	1.3	0.6	2.6	1.5
Total interest expense	\$ 119.7	\$ 137.6	\$ 381.9	\$ 366.7

[Table of Contents](#)

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 7.1 years, 5.1 years, and 17.1 years for the 2017 Senior Convertible Debt, 2015 Senior Convertible Debt and 2017 Junior Convertible Debt, respectively.

Senior Secured Notes

In May 2018, the Company issued \$1.00 billion aggregate principal amount of 3.922% Senior Secured Notes due 2021 (the "2021 Notes") and \$1.00 billion aggregate principal amount of 4.333% Senior Secured Notes due 2023 (the "2023 Notes", and together with the 2021 Notes, the "Senior Secured Notes") to qualified institutional buyers in a Rule 144A offering. In connection with the issuance of these instruments, the Company incurred issuance costs of \$24.4 million and recorded a debt discount of \$10.5 million for fees deducted from the proceeds, which will both be amortized using the effective interest method over the term of the debt. The 2021 Notes mature on June 1, 2021 and the 2023 Notes mature on June 1, 2023. Interest on the 2021 Notes accrues at a rate of 3.922% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2018. Interest on the 2023 Notes accrues at a rate of 4.333% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2018.

The Company may, at its option, redeem some or all of the 2021 Notes prior to June 1, 2021 at a price equal to the greater of (a) 100% of the principal amount of the 2021 Notes redeemed or (b) the sum of the present value of all remaining scheduled payments of principal and interest (discounted in accordance with the indenture for the 2021 Notes) that would have been due on the redeemed 2021 Notes, in each case, plus accrued and unpaid interest to, but excluding, the redemption date. The Company may, at its option, redeem some or all of the 2023 Notes, (i) if prior to May 1, 2023 (one month prior to the maturity date of the 2023 Notes), at a price equal to the greater of (a) 100% of the principal amount of the 2023 Notes redeemed or (b) the sum of the present value of all remaining scheduled payments of principal and interest (discounted in accordance with the indenture for the 2023 Notes) that would have been due on the redeemed 2023 Notes, in each case, plus accrued and unpaid interest to, but excluding, the redemption date, and (ii) if on or after May 1, 2023 (one month prior to maturity of the 2023 Notes), at a redemption price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If the Company experiences a specified change of control triggering event, the Company must offer to repurchase the Notes at a price equal to 101% of the principal amount of the Notes repurchased, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Notes are guaranteed by certain of the Company's subsidiaries (each such guarantee, a "Note Guarantee") that have also guaranteed the obligations under the Company's Credit Facility and under the Term Loan Facility (the Term Loan Facility together with the Credit Facility, the "Senior Credit Facilities") that was entered into in connection with the financing of the Microsemi acquisition.

The Notes and the Note Guarantees are secured, on a pari passu first lien basis with the Senior Credit Facilities, by substantially all of the tangible and intangible assets (other than certain excluded assets) of the Company and the guarantors that secure obligations under the Senior Credit Facilities, in each case subject to certain thresholds, exceptions and permitted liens, as set forth in the indenture for the Senior Secured Notes and the Security Agreement, dated May 29, 2018, by and among the Company, the subsidiary guarantors party thereto and the Collateral Agent (the "Security Agreement").

Credit Facility

In September 2019, the Company amended the Company's Credit Agreement to, among other things, reduce the margin added to the interest rate on revolving loans under the Credit Agreement to 0.0% to 0.75% for base rate loans and 1.0% to 1.75% for the LIBOR rate loans, in each case determined based on the Company's senior leverage ratio. The amendment also allows the Company the option to refinance the term loans or revolving loans under the Credit Agreement up to a certain dollar limit and the option to factor receivables and certain related assets as further explained below. The amendment reduced the commitments for the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion at June 30, 2019. In connection with the amendment of the Credit Agreement, the Company incurred issuance costs of \$1.75 million, which will be amortized using the effective interest method over the term of the debt.

The Credit Agreement provides for a revolving loan facility in an aggregate principal amount of approximately \$3.57 billion, with a \$250.0 million foreign currency sublimit, a \$50.0 million letter of credit sublimit and a \$25.0 million swingline loan sublimit. The Credit Agreement consists of approximately \$3.57 billion of revolving loan commitments that terminate on May 18, 2023 (the "2023 Maturity Date"). The \$244.3 million of revolving loan commitments that would have terminated on

[Table of Contents](#)

February 4, 2020 were canceled in the fiscal year ended March 31, 2019. The Revolving Loans bear interest, at the Company's option, at the base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period.

The Credit Agreement permits the Company to engage in replacement financing in an aggregate principal amount not to exceed \$2.0 billion incurred or issued to effect a refinancing or replacement of the initial Term Loans or payoff of other indebtedness and may have a maturity date that is at least three years after the date of incurrence or issuance of such replacement financing. The Credit Agreement allows the Company the sale, transfer or assignment of securitization assets in connection with qualified factoring transactions to the borrower or any subsidiary in an aggregate face amount that does not exceed an outstanding amount of \$600 million at any time. The Credit Agreement permits the Company to add one or more incremental term loan facilities (in addition to the loans under the Term Loan Facility) and/or increase the commitments under the Revolving Credit Facility from time to time, subject, in each case, to the receipt of additional commitments from existing and/or new lenders and pro forma compliance with a consolidated senior leverage ratio set forth in the Credit Agreement.

The Company's obligations under the Credit Agreement are guaranteed by certain of its subsidiaries meeting materiality thresholds set forth in the Credit Agreement. To secure the Company's obligations under the Credit Agreement and the subsidiary guarantors' obligations under the guarantees, the Company and each of the subsidiary guarantors has granted a security interest in substantially all its assets subject to certain exceptions and limitations.

In May 2018, the Company borrowed \$3.0 billion aggregate principal amount of loans under the Term Loan Facility ("Term Loans"). In connection with such borrowings, the Company incurred issuance costs of \$34.7 million which will be amortized using the effective interest method over the term of the debt. The Credit Agreement provides for quarterly amortization payments of the Term Loans on the last business day of each March, June, September and December, commencing with the last business day of the first full fiscal quarter to occur after the Microsemi acquisition effective date, equal to 0.25% of the aggregate original principal amount of the Term Loans. In addition, the Credit Agreement requires mandatory prepayments of the Term Loans from the incurrence of debt not otherwise permitted to be incurred under the Credit Agreement, certain asset sales and certain excess cash flow. Mandatory prepayments with excess cash flow (as defined in the Credit Agreement) are required to be made beginning with the Company's fiscal year ending March 31, 2020 in an amount equal to 50%, 25% or 0% of the excess cash flow for such fiscal year, depending on the Company's senior leverage ratio. The Company may prepay the Term Loans at any time without premium or penalty. Term Loans repaid or prepaid may not be reborrowed. The Company voluntarily prepaid \$188.0 million of principal under the Term Loan Facility in the nine months ended December 31, 2019, which resulted in a loss on settlement of debt of approximately \$1.9 million consisting of unamortized financing fees. During fiscal 2019, the Company voluntarily prepaid \$1.09 billion of principal under the Term Loan Facility of which \$500.0 million was from funds borrowed under its Revolving Credit Facility, and such transactions resulted in a loss on settlement of debt of approximately \$11.5 million consisting of unamortized financing fees.

Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three-month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable on the 2023 Maturity Date in the case of revolving loans under the Credit Agreement and May 29, 2025 in the case of the Term Loans. The Company pays a quarterly commitment fee on the available but unused portion of the Revolving Credit Facility which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a senior leverage ratio, a total leverage ratio and an interest coverage ratio, all measured quarterly and calculated on a consolidated basis. At December 31, 2019, the Company was in compliance with these financial covenants.

The financial covenants include limits on the Company's consolidated total leverage ratio and senior leverage ratio. The maximum Total Leverage Ratio (capitalized terms not otherwise defined in this Form 10-Q have the meaning of the defined terms in the applicable agreements), measured quarterly, cannot exceed (a) 6.75 to 1.00 for any such period ended on or after the Microsemi Acquisition Closing Date to (but excluding) the first anniversary of the Microsemi Acquisition Closing Date, (b) 6.25 to 1.00 for any such period ended on or after the first anniversary of the Microsemi Acquisition Closing Date to (but

[Table of Contents](#)

excluding) the second anniversary of the Microsemi Acquisition Closing Date to (but excluding) the second anniversary or the Microsemi Acquisition Closing Date and (c) 5.75 to 1.00 for any such period ended on or after the second anniversary of the Microsemi Acquisition Closing Date. The total leverage ratio is calculated as Consolidated Total Indebtedness, excluding the Junior Convertible Debt up to a \$700 million maximum, to Consolidated EBITDA for a period of four consecutive quarters. The Credit Agreement also requires that the Senior Leverage Ratio, measured quarterly, not exceed (a) 4.75 to 1.00 for any such period ended from (and including) the Microsemi Acquisition Closing Date to (but excluding) the first anniversary of the Microsemi Acquisition Closing Date, (b) 4.25 to 1.00 for any such period ended on or after the first anniversary of the Microsemi Acquisition Closing Date to (but excluding) the second anniversary of the Microsemi Acquisition Closing Date and (c) 3.75 to 1.00 for any such period ended on or after the second anniversary of the Microsemi Acquisition Closing Date. The senior leverage ratio is calculated as Consolidated Senior Indebtedness to Consolidated EBITDA for four consecutive quarters. The Company is also required to comply with a Minimum Interest Coverage Ratio of at least 3.25 to 1.00 for any period ended on or after the Microsemi Acquisition Closing Date, measured quarterly.

The Credit Agreement includes customary events of default that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Revolving Credit Facility at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts.

Note 13. Contingencies

In the ordinary course of the Company's business, it is exposed to various liabilities as a result of contracts, product liability, customer claims, governmental investigations and other matters. Additionally, the Company is involved in a limited number of legal actions, both as plaintiff and defendant. Consequently, the Company could incur uninsured liability in any of those actions. The Company also periodically receives notifications from various third parties alleging infringement of patents or other intellectual property rights, or from customers requesting reimbursement for various costs. With respect to pending legal actions to which the Company is a party and other claims, although the outcomes are generally not determinable, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position, cash flows or results of operations. Litigation, governmental investigations and disputes relating to the semiconductor industry are not uncommon, and the Company is, from time to time, subject to such litigation, governmental investigations and disputes. As a result, no assurances can be given with respect to the extent or outcome of any such litigation, governmental investigations or disputes in the future.

In connection with its acquisition of Microsemi, which closed on May 29, 2018, the Company became involved with the following legal matters:

Federal Shareholder Class Action Litigation. Beginning on September 14, 2018, the Company and certain of its officers were named in two putative shareholder class action lawsuits filed in the United States District Court for the District of Arizona, captioned Jackson v. Microchip Technology Inc., et al., Case No. 2:18-cv-02914-JJT and Maknissian v. Microchip Technology Inc., et al., Case No. 2:18-cv-02924-JJT. On November 13, 2018, the Maknissian complaint was voluntarily dismissed. The Jackson complaint is allegedly brought on behalf of a putative class of purchasers of Microchip common stock between March 2, 2018 and August 9, 2018. The complaint asserts claims for alleged violations of the federal securities laws and generally alleges that the defendants issued materially false and misleading statements and failed to disclose material adverse facts about the Company's business, operations, and prospects during the putative class period. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. On December 11, 2018, the Court issued an order appointing the lead plaintiff. An amended complaint was filed on February 22, 2019. Defendants filed a motion to dismiss the amended complaint on April 1, 2019.

[Table of Contents](#)

Federal Derivative Litigation. On December 17, 2018, a shareholder derivative lawsuit was filed against certain of the Company's officers and directors in the United States District Court for the District of Arizona, captioned *Kistenmacher v. Sanghi, et al.*, Case No. 18-cv-04720. The Company was named as a nominal defendant. The complaint generally alleged that defendants breached their fiduciary duties by, among other things, making or causing the Company to make false and misleading statements and omissions regarding the Microsemi acquisition, the Company's business, operations, and prospects, and a purported failure to maintain internal controls. The complaint further alleged that certain defendants engaged in insider trading. The complaint asserted causes of action for alleged violations of Section 14(a) of the Securities Exchange Act, breach of fiduciary duties, and unjust enrichment and sought unspecified monetary damages, corporate governance reforms, restitution, and attorneys' fees and costs. Defendants filed motions to dismiss on July 23, 2019. On September 13, 2019, the court granted the parties' stipulation of voluntary dismissal dismissing the case without prejudice.

State Derivative Litigation. On January 22, 2019, a shareholder derivative lawsuit was filed against certain of the Company's officers and directors in the Superior Court of Arizona for Maricopa County, captioned *Reid v. Sanghi, et al.*, Case No. CV2019-002389. The Company is named as a nominal defendant. The complaint generally alleges that defendants breached their fiduciary duties by, among other things, purportedly failing to conduct adequate due diligence regarding Microsemi prior to its acquisition, misrepresenting the Company's business prospects and health, and engaging in improper practices, and further alleges that certain defendants engaged in insider trading. The complaint asserts causes of action for breach of fiduciary duty, waste, and unjust enrichment and seeks unspecified monetary damages, corporate governance reforms, equitable and/or injunctive relief, restitution, and attorneys' fees and costs. This case was stayed on May 23, 2019 to allow the Federal Derivative Litigation to address certain overlapping issues. Following the dismissal of the Federal Derivative Litigation, on October 1, 2019, the court granted the parties' joint request for a temporary stay. On January 30, 2020, the court lifted the temporary stay. An amended complaint is due to be filed by February 28, 2020.

Peterson, et al. v. Sanghi, et al. On October 9, 2018, four former officers of Microsemi Corporation filed a lawsuit in the Superior Court of California in Orange County against the Company, Steve Sanghi, Eric Bjornholt, Ganesh Moorthy and Mitch Little asserting claims for slander per se, libel per se, trade libel, and violations of California Business and Professions Code Section 17200 ("UCL"). Among other things, the plaintiffs in this matter allege that statements the Microchip executives made about excess shipments of products by Microsemi into the distribution channel were defamatory and that Microchip executives, including Mr. Sanghi, made false statements about Microsemi's shipments of products into the distribution channel, about certain Microsemi business practices and about the relative strength of the financial results of Microchip and Microsemi for the June 2018 quarter. On November 8, 2018, defendants removed the action to the United States District Court for the Central District of California, Case No. 18-cv-02000-JLS. Defendants moved to dismiss, and, following the Court's ruling, Plaintiffs filed an amended complaint that dropped the trade libel and UCL claims. The plaintiffs are seeking compensatory damages in excess of \$100 million, punitive damages in excess of \$300 million, as well as injunctive relief, and attorneys' fees and costs. Discovery has begun, and the Court has set a Final Pretrial Conference date of June 19, 2020.

Governmental Investigations. The Department of Justice and the Securities and Exchange Commission are investigating matters relating to the Company's acquisition of Microsemi. The Company believes that the investigations relate to distribution channel issues and business practices at Microsemi and the allegations made by the plaintiffs in the *Peterson v. Sanghi* lawsuit described above.

As a result of its acquisition of Atmel, which closed April 4, 2016, the Company became involved with the following legal matters:

Continental Claim ICC Arbitration. On December 29, 2016, Continental Automotive GmbH ("Continental") filed a Request for Arbitration with the ICC, naming as respondents the Company's subsidiaries Atmel Corporation, Atmel SARL, Atmel Global Sales Ltd., and Atmel Automotive GmbH (collectively, "Atmel"). The Request alleges that a quality issue affecting Continental airbag control units in certain recalled vehicles stems from allegedly defective Atmel application specific integrated circuits ("ASICs"). Continental seeks to recover from Atmel all related costs and damages incurred as a result of the vehicle manufacturers' airbag control unit-related recalls, currently alleged to be \$204 million. The Company's Atmel subsidiaries intend to defend this action vigorously.

Southern District of New York Action by LFoundry Rousset ("LFR") and LFR Employees. On March 4, 2014, LFR and Jean-Yves Guerrini, individually and on behalf of a putative class of LFR employees, filed an action in the United States District Court for the Southern District of New York (the "District Court") against the Company's Atmel subsidiary, French subsidiary, Atmel Rousset S.A.S. ("Atmel Rousset"), and LFoundry GmbH ("LF"), LFR's German parent. The case purports to relate to Atmel Rousset's June 2010 sale of its wafer manufacturing facility in Rousset, France to LF, and LFR's subsequent insolvency, and later liquidation, more than three years later. The District Court dismissed the case on August 21, 2015, and the United States Court of Appeals for the Second Circuit affirmed the dismissal on June 27, 2016. On July 25, 2016, the plaintiffs

[Table of Contents](#)

filed a notice of appeal from the District Court's June 27, 2016 denial of their motion for relief from the dismissal judgment. On May 19, 2017, the United States Court of Appeals for the Second Circuit affirmed the June 27, 2016 order dismissing the case.

Individual Labor Actions by former LFR Employees. In June 2010, Atmel Rousset sold its wafer manufacturing business in Rousset, France to LFoundry GmbH ("LF"), the German parent of LFoundry Rousset ("LFR"). LFR then leased the Atmel Rousset facility to conduct the manufacture of wafers. More than three years later, LFR became insolvent and later liquidated. In the wake of LFR's insolvency and liquidation, over 500 former employees of LFR have filed individual labor actions against Atmel Rousset in a French labor court. The Company's Atmel Rousset subsidiary believes that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with the Atmel Rousset subsidiary is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. The Company's Atmel Rousset subsidiary therefore intends to defend vigorously against each of these claims. Additionally, complaints have been filed in a regional court in France on behalf of the same group of employees against Microchip Technology Rousset, Atmel Switzerland Sarl, Atmel Corporation and Microchip Technology Incorporated alleging that the sale of the Atmel Rousset production unit to LF was fraudulent and should be voided. Furthermore, new claims have been filed in a regional court in France on behalf of a subset of this same group of employees against Microchip Technology Incorporated and Atmel Corporation. These claims are specious and the defendant entities therefore intend to defend vigorously against these claims.

The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, the Company accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, the Company records an accrual for the amount within the range that constitutes its best estimate. If the Company can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, the Company uses the amount that is the low end of such range. As of December 31, 2019, the Company's estimate of the aggregate potential liability that is possible but not probable is approximately \$100 million in excess of amounts accrued.

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$166.8 million. There are some licensing agreements in place that do not specify indemnification limits. As of December 31, 2019, the Company had not recorded any liabilities related to these indemnification obligations and the Company believes that any amounts that it may be required to pay under these agreements in the future will not have a material adverse effect on its financial position, cash flows or results of operations.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2019, the Company learned of an ongoing compromise of its computer networks by what is believed to be sophisticated hackers. The Company engaged experienced legal counsel and a leading forensic investigatory firm with experience in such matters. The Company has taken steps to identify malicious activity on its network including a compromise of its network and, in May 2019, the Company began implementing a containment plan. The Company is continuing to evaluate the effectiveness of the containment plan and the amount and content of the information that was compromised and to implement additional remedial actions. At this time, the Company does not believe that this IT system compromise has had a material adverse effect on its business or resulted in any material damage to it and the Company does not currently believe that such matters will have a material adverse effect on its financial position, cash flows or results of operations. However, until the Company completes its evaluation of the amount and type of data that was compromised, there can be no assurance as to what the impact of this IT system compromise will be.

Note 14. Derivative Instruments

Freestanding Derivative Forward Contracts

The Company has international operations and is thus subject to foreign currency rate fluctuations. Approximately 99% of the Company's sales are U.S. Dollar denominated. However, a significant amount of the Company's expenses and liabilities are denominated in foreign currencies and subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Foreign exchange rate fluctuations after the effects of hedging activity resulted in net losses of \$2.6 million and \$2.9 million for the three and nine months ended December 31, 2019, respectively, compared to net losses of \$1.9 million and \$6.3 million for the three and nine months ended December 31, 2018, respectively. The Company had no foreign currency forward contracts outstanding as of December 31, 2019 and March 31, 2019. The Company recognized an immaterial amount of net losses and gains on foreign currency forward contracts in each of the three and nine months ended December 31, 2019 and 2018. Gains and losses from changes in the fair value of these foreign currency forward contracts and foreign currency exchange rate fluctuations are credited or charged to other loss, net. The Company does not apply hedge accounting to its foreign currency derivative instruments.

Commodity Price Risk

The Company is exposed to fluctuations in prices for energy that it consumes, particularly electricity and natural gas. The Company also enters into variable-priced contracts for some purchases of electricity and natural gas, on an index basis. The Company seeks, or may seek, to partially mitigate these exposures through fixed-price contracts. These contracts meet the characteristics of derivative instruments, but generally qualify for the "normal purchases or normal sales" exception under authoritative guidance and require no mark-to-market adjustment.

Note 15. Accumulated Other Comprehensive Loss

The following table presents the changes in the components of accumulated other comprehensive loss (AOCI), net of tax, for the nine months ended December 31, 2019 (in millions):

	Unrealized holding gains (losses) available-for-sale debt securities	Defined benefit pension plans	Foreign Currency	Total
Accumulated other comprehensive income (loss) at March 31, 2019	\$ 0.2	\$ (6.2)	\$ (14.7)	\$ (20.7)
Impact of change in accounting principle	(0.2)	(1.1)	—	(1.3)
Opening Balance as of April 1, 2019	—	(7.3)	(14.7)	(22.0)
Other comprehensive income (loss) before reclassifications	—	0.1	(0.7)	(0.6)
Amounts reclassified from accumulated other comprehensive income (loss)	—	0.6	—	0.6
Net other comprehensive income (loss)	—	0.7	(0.7)	—
Accumulated other comprehensive loss at December 31, 2019	\$ —	\$ (6.6)	\$ (15.4)	\$ (22.0)

Table of Contents

The table below details where reclassifications of realized transactions out of AOCI are recorded on the condensed consolidated statements of income (in millions):

Description of AOCI Component	Related Statements of Income Line	Three Months Ended December 31,		Nine Months Ended December 31,	
		2019	2018	2019	2018
Unrealized losses on available-for-sale debt securities	Other loss, net	\$ —	\$ —	\$ —	\$ (5.6)
Amortization of actuarial loss	Other loss, net	(0.2)	(0.3)	(0.6)	(0.8)
Reclassification of realized transactions, net of taxes	Net income	\$ (0.2)	\$ (0.3)	\$ (0.6)	\$ (6.4)

Note 16. Share-Based Compensation

Share-Based Compensation Expense

The following table presents the details of the Company's share-based compensation expense (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Cost of sales ⁽¹⁾	\$ 5.7	\$ 3.4	\$ 15.8	\$ 10.9
Research and development	21.2	19.4	63.0	53.2
Selling, general and administrative	16.6	16.6	50.7	46.1
Special charges (income) and other, net	—	0.2	—	17.3
Pre-tax effect of share-based compensation	43.5	39.6	129.5	127.5
Income tax benefit	9.2	8.2	28.2	27.3
Net income effect of share-based compensation	\$ 34.3	\$ 31.4	\$ 101.3	\$ 100.2

⁽¹⁾ During the three and nine months ended December 31, 2019, \$5.1 million and \$15.4 million, respectively, of share-based compensation expense was capitalized to inventory, and \$5.7 million and \$15.8 million, respectively, of previously capitalized share-based compensation expense in inventory was sold. During the three and nine months ended December 31, 2018, \$4.7 million and \$12.6 million, respectively, of share-based compensation expense was capitalized to inventory and \$3.4 million and \$10.9 million, respectively, of previously capitalized share-based compensation expense in inventory was sold.

Microsemi Acquisition-related Equity Awards

In connection with its acquisition of Microsemi on May 29, 2018, the Company assumed certain restricted stock units (RSUs), stock appreciation rights (SARs), and stock options granted by Microsemi. The assumed awards were measured at the acquisition date based on the estimated fair value, which was a total of \$175.4 million. A portion of that fair value, \$53.9 million, which represented the pre-acquisition vested service provided by employees to Microsemi, was included in the total consideration transferred as part of the acquisition. As of the acquisition date, the remaining portion of the fair value of those awards was \$121.5 million, representing post-acquisition share-based compensation expense that will be recognized as these employees provide service over the remaining vesting periods. During the nine months ended December 31, 2018, the Company recognized \$53.5 million of share-based compensation expense in connection with the acquisition of Microsemi, of which \$2.6 million was capitalized into inventory and \$17.3 million was due to the accelerated vesting of outstanding equity awards upon termination of certain Microsemi employees.

Note 17. Net Income Per Common Share

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Net income	\$ 311.1	\$ 49.2	\$ 470.7	\$ 181.2
Basic weighted average common shares outstanding	239.2	236.7	238.5	235.9
Dilutive effect of stock options and RSUs	3.4	3.3	3.5	3.8
Dilutive effect of 2015 Senior Convertible Debt	15.2	4.6	13.6	9.8
Dilutive effect of 2017 Senior Convertible Debt	0.3	—	0.1	—
Dilutive effect of 2017 Junior Convertible Debt	0.2	—	0.1	—
Diluted weighted average common shares outstanding	258.3	244.6	255.8	249.5
Basic net income per common share	\$ 1.30	\$ 0.21	\$ 1.97	\$ 0.77
Diluted net income per common share	\$ 1.20	\$ 0.20	\$ 1.84	\$ 0.73

The Company computed basic net income per common share based on the weighted average number of common shares outstanding during the period. The Company computed diluted net income per common share based on the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period.

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options and the assumed vesting of outstanding RSUs. Weighted average common shares exclude the effect of option shares which are not dilutive. There were no anti-dilutive option shares for each of the three and nine months ended December 31, 2019 and 2018.

Diluted weighted average common shares outstanding for the three and nine months ended December 31, 2019 includes 15.2 million shares and 13.6 million shares, respectively, compared to 4.6 million shares and 9.8 million shares, respectively, for the three and nine months ended December 31, 2018 issuable upon the exchange of the Company's 2015 Senior Convertible Debt. Diluted weighted average common shares outstanding for the three and nine months ended December 31, 2019 includes 0.3 million shares and 0.1 million shares, respectively, issuable upon the exchange of the Company's 2017 Senior Convertible Debt. Diluted weighted average common shares outstanding for the three and nine months ended December 31, 2019 includes 0.2 million shares and 0.1 million shares, respectively, issuable upon the exchange of the Company's 2017 Junior Convertible Debt. There were no shares issuable upon the exchange of the Company's 2017 Senior Convertible Debt or the Company's 2017 Junior Convertible Debt for the three and nine months ended December 31, 2018. The convertible debt has no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the Company intends to settle the principal amount of the debentures in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The following is the weighted average conversion price per share used in calculating the dilutive effect (See Note 12 for details on the convertible debt):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
2015 Senior Convertible Debt	\$ 61.67	\$ 62.72	\$ 61.92	\$ 63.00
2017 Senior Convertible Debt	\$ 96.16	\$ 97.81	\$ 96.56	\$ 98.25
2017 Junior Convertible Debt	\$ 94.48	\$ 96.10	\$ 94.87	\$ 96.53

Note 18. Stock Repurchase Activity

In January 2016, the Company's Board of Directors authorized an increase to the existing share repurchase program to 15.0 million shares of common stock. There were no repurchases of common stock during the three and nine months ended December 31, 2019. There is no expiration date associated with this repurchase program. As of December 31, 2019, approximately 13.7 million shares remained as treasury shares with the balance of the shares being used to fund share issuance requirements under the Company's equity incentive plans.

Note 19. Dividends

A quarterly cash dividend of \$0.3665 per share was paid on December 5, 2019 in the aggregate amount of \$87.7 million. A quarterly cash dividend of \$0.3670 per share was declared on February 4, 2020 and will be paid on March 6, 2020 to stockholders of record as of February 21, 2020. The Company expects the March 2020 payment of its quarterly cash dividend to be approximately \$88.0 million.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-looking Statements

This report, including "Part I – Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II - Item 1A Risk Factors" contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "plan," "expect," "future," "continue," "intend" and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under "Risk Factors," beginning at page 49 and elsewhere in this Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. These forward-looking statements include, without limitation, statements regarding the following:

- The effects that uncertain global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines and modest pricing declines in certain of our more mature proprietary product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, fixed cost absorption, competition and economic conditions on gross margin;
- The amount of, and changes in, demand for our products and those of our customers;
- The impact of trade restrictions and changes in tariffs, including those impacting China;
- Our expectation that in the future we will acquire additional businesses that we believe will complement our existing businesses;
- Our expectation that in the future we will enter into joint development agreements or other business or strategic relationships with other companies;
- The level of orders that will be received and shipped within a quarter, including the impact of our product lead times;
- Our expectation that our March 2020 days of inventory levels will be flat to down 14 days compared to the December 2019 levels. Our belief that our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- Anticipating increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances in our products;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;
- Our ability to increase the proprietary portion of our analog, interface, mixed signal and timing product lines and the effect of such an increase;

Table of Contents

- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- The cost savings from re-purposing the 6-inch wafer fabrication facility in Colorado for the manufacture of discrete and specialty products in addition to a lower volume of a diversified set of standard products and transferring the manufacture of certain higher volume products to other facilities;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- The impact of seasonality on our business;
- Our belief that our IT system compromise has not had a material adverse effect on our business or resulted in any material damage to us;
- Our expectation that we will continue to be the target of attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The recoverability of our deferred tax assets;
- The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;
- Our belief that the estimates used in preparing our condensed consolidated financial statements are reasonable;
- Our actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis;
- Our ability to obtain patents and intellectual property licenses and minimize the effects of litigation;
- The level of risk we are exposed to for product liability claims or indemnification claims;
- The effect of fluctuations in market interest rates on our income and/or cash flows;
- The effect of fluctuations in currency rates;
- That we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities;
- Our intention to satisfy the lesser of the principal amount or the conversion value of our debentures in cash;
- Our intention to invest substantially all of our foreign subsidiary earnings, as well as our capital in our foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which we would incur significant, additional costs upon repatriation of such amounts.
- Changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings;
- Our belief that the effect the new tax laws will have on low-taxed income of foreign subsidiaries will have the most significant, adverse impact;
- Our intent to maintain a high-quality investment portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield; and
- Our ability to collect accounts receivable.

Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth in "Item 1A – Risk Factors," and elsewhere in this Form 10-Q. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update the information contained in any forward-looking statement.

Introduction

The following discussion should be read in conjunction with the condensed consolidated financial statements and the related notes that appear elsewhere in this document.

[Table of Contents](#)

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of our overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three and nine months ended December 31, 2019 compared to the three and nine months ended December 31, 2018. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources," and "Off-Balance Sheet Arrangements."

Acquisition of Microsemi

On May 29, 2018, we completed our acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. We paid an aggregate of approximately \$8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately \$53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards of Microchip, was approximately \$8.24 billion. In addition to the consideration transferred, we recognized in our consolidated financial statements \$3.23 billion in liabilities of Microsemi consisting of debt, taxes payable and deferred, pension obligations, restructuring, and contingent and other liabilities of which \$2.06 billion of existing debt was paid off. We financed the purchase price using approximately \$8.10 billion of borrowings consisting of \$3.10 billion of loans under our revolving line of credit (the "Revolving Credit Facility"), \$3.00 billion of term loans ("Term Loan Facility") provided under our amended and restated Credit Agreement, and \$2.00 billion in newly issued senior secured notes. We incurred \$22.0 million in costs related to the acquisition. As a result of the acquisition, Microsemi became a wholly owned subsidiary of Microchip. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. Our primary reason for this acquisition was to expand our range of solutions, products and capabilities by extending our served available market.

For further details, see the discussion in Note 3 of our condensed consolidated financial statements included in this report.

Material Weaknesses in Internal Controls

As discussed in Item 4 "Controls and Procedures" in this report on Form 10-Q, in the fourth quarter of fiscal 2019, we identified a material weakness in our internal controls related to accounting for income taxes and we also identified a material weakness in our internal controls related to IT system access. Internal controls related to such matters are important to accurately reflect our financial position and results of operations in our financial reports. We are in the process of remediating the material weaknesses, but our efforts may not be successful. If we are unable to remediate the material weaknesses in an appropriate and timely manner, or if we identify additional control deficiencies that individually or together constitute significant deficiencies or material weaknesses, our ability to accurately record, process, and report financial information and consequently, our ability to prepare financial statements within required time periods, could be adversely affected. Failure to maintain effective internal controls could result in violations of applicable securities laws, stock exchange listing requirements, and the covenants under our debt agreements, subject us to litigation and investigations, negatively affect investor confidence in our financial statements, and adversely impact our stock price and ability to access capital markets. For additional information, refer to Item 4 "Controls and Procedures."

IT System Compromise

As reported in our March 31, 2019 Form 10-K, we learned of an ongoing compromise of our computer networks by what is believed to be sophisticated hackers. We engaged experienced legal counsel and a leading forensic investigatory firm with experience in such matters. We have taken steps to identify malicious activity on our network including a compromise of our network and, in May 2019, we began implementing a containment plan. We are continuing to evaluate the effectiveness of the containment plan and the amount and content of the information that was compromised and to implement additional remedial actions. At this time, we do not believe that this IT system compromise has had a material adverse effect on our business or resulted in any material damage to us and we do not currently believe that such matters will have a material adverse effect on our financial position, cash flows or results of operations. However, until we complete our evaluation of the amount and type of data that was compromised, there can be no assurance as to what the impact of this IT system compromise will be.

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control solutions, including general purpose and specialized 8-bit, 16-

[Table of Contents](#)

bit, and 32-bit microcontrollers, 32-bit microprocessors, field-programmable gate array (FPGA) products, a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, discrete diodes and MOSFETS, radio frequency (RF), timing, timing systems, safety, security, wired connectivity and wireless connectivity devices, as well as Serial Electrically Erasable Programmable Read Only Memory (EEPROM), Serial Flash memories, Parallel Flash memories, Serial Electrically Erasable Random Access Memory (EERAM) and Serial Static Random Access Memory (SRAM). We also license Flash-IP solutions that are incorporated in a broad range of products. We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, wide voltage range operation, mixed signal integration and ease of development, thus enabling timely and cost-effective integration of our solutions by our customers in their end products. We license our SuperFlash technology and other technologies to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of advanced microcontroller products, gate array, radio frequency (RF) and analog products that require embedded non-volatile memory.

We sell our products to a broad base of domestic and international customers across a variety of industries. The principal markets that we serve include consumer, automotive, industrial, aerospace, office communication, and computing. Our business is subject to fluctuations based on economic conditions within these markets.

Our manufacturing operations include wafer fabrication, wafer probe and assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and assembly and test operations, and by employing statistical process control techniques, we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and the assembly and test profit margin. We do outsource a significant portion of our manufacturing requirements to third parties. Our acquisition of Microsemi significantly increased the amount of our outsourced manufacturing requirements.

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

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

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

See "Our operating results are impacted by both seasonality and the wide fluctuation of supply and demand in the semiconductor industry," on page 53 for discussion of the impact of seasonality on our business.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, business combinations, share-based compensation, inventories, income taxes, senior and junior subordinated convertible debt and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. For further information, refer to our "Critical Accounting Policies and Estimates" as previously described in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019. Except for the changes discussed in "Recently Adopted Accounting Pronouncements" in Note 2 to our condensed consolidated financial statements in this Form 10-Q, there were no changes to our critical accounting policies and estimates during the first nine months of the fiscal year ending March 31, 2020.

Results of Operations

The following table sets forth certain operational data as a percentage of net sales for the periods covered by this report:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Net sales	100.0%	100.0 %	100.0%	100.0%
Cost of sales	39.0	43.3	38.5	47.5
Gross profit	61.0	56.7	61.5	52.5
Research and development	16.9	15.8	16.6	15.2
Selling, general and administrative	13.3	12.7	12.9	12.8
Amortization of acquired intangible assets	19.3	14.1	18.9	12.4
Special charges (income) and other, net	1.3	(0.1)	0.8	1.4
Operating income	10.2%	14.2 %	12.3%	10.7%

Net Sales

We operate in two industry segments and engage primarily in the design, development, manufacture and sale of semiconductor products as well as the licensing of our SuperFlash and other technologies. We sell our products to distributors and original equipment manufacturers, referred to as OEMs, in a broad range of markets, perform ongoing credit evaluations of our customers and generally require no collateral. In certain circumstances, a customer's financial condition may require collateral, and, in such cases, the collateral would be typically provided by letters of credit.

The following table summarizes our net sales for the periods covered by this report (dollars in millions):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2019	2018	% Change	2019	2018	% Change
Net sales	\$ 1,287.4	\$ 1,374.7	(6.4)%	\$ 3,947.8	\$ 4,019.7	(1.8)%

The decreases in net sales in the three and nine months ended December 31, 2019 compared to the three and nine months ended December 31, 2018 were primarily due to adverse demand fluctuations in the markets we serve, which were negatively impacted by general economic conditions, trade restrictions and adverse changes in tariffs. In the nine months ended December 31, 2019, these adverse conditions negatively affected consolidated net sales by approximately 7% compared to the same period in the prior year. This decrease was partially offset by the timing of our acquisition of Microsemi as the nine months ended December 31, 2019 included three full quarters of Microsemi net sales compared to seven months of Microsemi net sales in the nine months ended December 31, 2018, which accounted for an increase of approximately 5% in our net sales over such periods.

Table of Contents

We sell a large number of products to a large and diverse customer base and, excluding the impact of our Microsemi acquisition, there was not any product, customer or market that accounted for a material portion of the change. The overall average selling price of our products is affected by pricing declines over the life of individual products; however, variations in our product and geographic mix of sales can cause wider fluctuations in our overall average selling price in any given period. The overall average selling price of our products did not change significantly during the three and nine months ended December 31, 2019 compared to the three and nine months ended December 31, 2018.

Key factors impacting the amount of net sales during the three and nine months ended December 31, 2019 compared to the three and nine months ended December 31, 2018 include:

- our acquisition of Microsemi, which closed on May 29, 2018;
- global economic conditions in the markets we serve;
- trade restrictions and adverse changes in tariffs;
- semiconductor industry conditions;
- our new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- inventory holding patterns of our customers, including distributors; and
- increasing semiconductor content in our customers' products.

Net sales by product line for the periods covered by this report were as follows (dollars in millions):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2019	%	2018	%	2019	%	2018	%
Microcontrollers	\$ 685.8	53.3	\$ 716.9	52.2	\$ 2,091.8	53.0	\$ 2,218.0	55.2
Analog, interface, mixed signal and timing products	363.3	28.2	396.6	28.8	1,143.6	29.0	1,147.7	28.6
Field-programmable gate array products	92.6	7.2	97.7	7.1	276.8	7.0	206.4	5.1
Licensing, memory and other	145.7	11.3	163.5	11.9	435.6	11.0	447.6	11.1
Total net sales	\$ 1,287.4	100.0	\$ 1,374.7	100.0	\$ 3,947.8	100.0	\$ 4,019.7	100.0

Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 53.3% and 53.0% of our net sales for the three and nine months ended December 31, 2019, respectively, compared to approximately 52.2% and 55.2% of our net sales for the three and nine months ended December 31, 2018, respectively.

Net sales of our microcontroller products decreased 4.3% and 5.7% in the three and nine months ended December 31, 2019, respectively, compared to the three and nine months ended December 31, 2018. These sales decreases were due primarily to adverse demand fluctuations in the markets we serve, partially offset by our acquisition of Microsemi.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller products have remained relatively constant over time due to the proprietary nature of these products. We have experienced, and expect to continue to experience, moderate pricing pressure in certain microcontroller product lines, primarily due to competitive conditions. We have in the past been able to, and expect in the future to be able to, moderate average selling price declines in our microcontroller product lines by introducing new products with more features and higher prices. We may be unable to maintain average selling prices for our microcontroller products as a result of increased pricing pressure in the future, which would adversely affect our operating results. The average selling price of our microcontroller products is affected by these trends; however, variations in our product and geographic mix of sales can cause wider fluctuations in the average selling price of our microcontroller products in any given period.

Analog, Interface, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 28.2% and 29.0% of our net sales for the three and nine months ended December 31, 2019, respectively, compared to approximately 28.8% and 28.6% of our net sales for the three and nine months ended December 31, 2018, respectively.

Table of Contents

Net sales of our analog, interface, mixed signal and timing products decreased 8.4% in the three months ended December 31, 2019 and 0.4% in the nine months ended December 31, 2019, respectively, compared to the three and nine months ended December 31, 2018. The sales decreases were due primarily to adverse demand conditions in the markets we serve, partially offset by our acquisition of Microsemi.

Analog, interface, mixed signal and timing products can be proprietary or non-proprietary in nature. Currently, we consider a majority of our analog, interface, mixed signal and timing products to be proprietary in nature, where prices are relatively stable, similar to the pricing stability experienced in our microcontroller products. The non-proprietary portion of our analog, interface, mixed signal and timing business will experience price fluctuations, driven primarily by the current supply and demand for those products. We may be unable to maintain the average selling prices of our analog, interface, mixed signal and timing products as a result of increased pricing pressure in the future, which would adversely affect our operating results. We anticipate the proprietary portion of our analog, interface, mixed signal and timing products will increase over time.

Field-Programmable Gate Array (FPGA) Products

Our FPGA product line was primarily acquired as part of our acquisition of Microsemi on May 29, 2018. Sales of our FPGA products accounted for approximately 7.2% and 7.0% of our net sales for the three and nine months ended December 31, 2019, respectively, compared to approximately 7.1% and 5.1% of our net sales for the three and nine months ended December 31, 2018, respectively.

Net sales of our FPGA products decreased 5.2% in the three months ended December 31, 2019 and increased 34.1% in the nine months ended December 31, 2019, respectively, compared to the three and nine months ended December 31, 2018. The decrease for the three months ended December 31, 2019 compared to the three months ended December 31, 2018 is due primarily to adverse demand conditions in the markets we serve. The increase for the nine months ended December 31, 2019 compared to the nine months ended December 31, 2018 is due primarily to our acquisition of Microsemi, partially offset by adverse demand conditions in the markets we serve.

FPGA product pricing has historically been relatively stable because they are proprietary products with significant design in complexity and they are frequently designed into long-lived end applications.

Licensing, Memory and Other

Licensing, memory and other (LMO) includes royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, fees for engineering services, memory products, manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, and products for aerospace applications. Revenue from these services and products accounted for approximately 11.3% and 11.0% of our net sales for the three and nine months ended December 31, 2019, respectively, compared to approximately 11.9% and 11.1% of our net sales for the three and nine months ended December 31, 2018, respectively.

Net sales related to these services and products decreased 10.9% in the three months ended December 31, 2019 and 2.7% in the nine months ended December 31, 2019, respectively, compared to the three and nine months ended December 31, 2018. LMO net sales can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our licenses, engineering services, memory products, and manufacturing services (wafer foundry and assembly and test subcontracting).

Distribution

Distributors accounted for approximately 49.6% and 49.9% of our net sales in the three and nine months ended December 31, 2019, respectively, and approximately 49.9% and 50.9% of our net sales in the three and nine months ended December 31, 2018, respectively. With the exception of Arrow Electronics, our largest distributor, which represented 10% and 11% of our net sales in the three and nine months ended December 31, 2019, no other distributor or end customer accounted for more than 10% of our net sales in the three and nine months ended December 31, 2019. In the three and nine months ended December 31, 2018, no distributor or end customer accounted for more than 10% of our net sales. Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize Microchip for its products and brand name and use distributors as an effective supply channel.

[Table of Contents](#)

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

At December 31, 2019, our distributors maintained 28 days of inventory of our products compared to 35 days at March 31, 2019. Over the past ten fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 27 days and 47 days. Inventory holding patterns at our distributors may have a material impact on our net sales.

Sales by Geography

Sales by geography for the periods covered by this report were as follows (dollars in millions):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2019	%	2018	%	2019	%	2018	%
Americas	\$ 309.8	24.1	\$ 346.7	25.2	\$ 1,011.1	25.6	\$ 967.9	24.1
Europe	276.2	21.5	285.1	20.7	870.3	22.0	903.3	22.5
Asia	701.4	54.4	742.9	54.1	2,066.4	52.4	2,148.5	53.4
Total net sales	\$ 1,287.4	100.0	\$ 1,374.7	100.0	\$ 3,947.8	100.0	\$ 4,019.7	100.0

Americas sales include sales to customers in the U.S., Canada, Central America and South America. Sales to foreign customers accounted for approximately 79% of our total net sales in each of the three and nine months ended December 31, 2019 compared to approximately 80% and 81% of our total net sales in the three and nine months ended December 31, 2018, respectively. Substantially all of our foreign sales are U.S. dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their manufacturing operations to Asia and growth in demand from the emerging Asian market; however, sales to Asia as a percentage of our total net sales decreased in the nine months ended December 31, 2019 compared to the nine months ended December 31, 2018 due to our acquisition of Microsemi, whose sales to customers in Asia accounted for a smaller portion of their total net sales than Microchip's historical business. Sales to customers in the Americas increased as a percentage of total sales in the nine months ended December 31, 2019 compared to the nine months ended December 31, 2018 due to our acquisition of Microsemi, which had more concentration in the aerospace and defense industry in the Americas. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

Gross Profit

Our gross profit in the three months ended December 31, 2019 was \$785.5 million, or 61.0% of net sales, compared to \$779.6 million, or 56.7% of net sales, in the three months ended December 31, 2018. Our gross profit in the nine months ended December 31, 2019 was \$2,428.2 million, or 61.5% of net sales, compared to \$2,110.9 million, or 52.5% of net sales, in the nine months ended December 31, 2018.

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

- charges of approximately \$86.0 million and \$375.7 million, respectively, in the three and nine months ended December 31, 2018 related to the recognition of acquired inventory at fair value as a result of our acquisition of Microsemi which increased the value of our acquired inventory and subsequently increased our cost of sales and reduced our gross margins when the related revenue was recognized;
- unabsorbed capacity charges of \$17.1 million and \$33.3 million due to operating at below normal capacity in the three and nine months ended December 31, 2019, respectively;
- unabsorbed capacity charges of \$6.9 million and \$9.1 million due to operating at below normal capacity in the three and nine months ended December 31, 2018, respectively; and
- fluctuations in the product mix of our net sales.

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

- continual cost reductions in wafer fabrication and assembly and test manufacturing, such as new manufacturing technologies and more efficient manufacturing techniques; and
- economic market conditions.

[Table of Contents](#)

We adjust our wafer fabrication and assembly and test capacity utilization as required to respond to actual and anticipated business and industry-related conditions. When production levels are below normal capacity, which we measure as a percentage of the capacity of the installed equipment, we charge cost of sales for the unabsorbed capacity. During the three and nine months ended December 31, 2019, we operated at below normal capacity levels resulting in an unabsorbed capacity charge of \$17.1 million and \$33.3 million, respectively. During three and nine months ended December 31, 2018, we operated at below normal capacity levels resulting in unabsorbed capacity charges of \$6.9 million and \$9.1 million, respectively.

The process technologies utilized in our wafer fabrication facilities impact our gross margins. Our wafer fabrication facility located in Tempe, Arizona (Fab 2) currently utilizes various manufacturing process technologies, but predominantly utilizes our 0.5 micron to 1.0 micron processes. Our wafer fabrication facility located in Gresham, Oregon (Fab 4) predominantly utilizes our 0.13 micron to 0.5 micron processes. We continue to transition products to more advanced process technologies to reduce future manufacturing costs. All of our production in Fab 2 and Fab 4 has been on 8-inch wafers during the periods covered by this report. We consider normal capacity at Fab 2 and Fab 4 to be 90% to 95%. Our wafer fabrication facility in Colorado Springs, Colorado (Fab 5) currently utilizes processes between 0.25 micron and 1.0 micron that run on 6-inch wafers. We consider normal capacity at Fab 5 to be 70% to 75%.

Our overall inventory levels were \$708.8 million at December 31, 2019, compared to \$711.7 million at March 31, 2019. We maintained 129 days of inventory on our balance sheet at December 31, 2019 compared to 128 days of inventory at March 31, 2019. We expect our days of inventory levels in the March 2020 quarter to be flat to down 14 days compared to the December 2019 levels. We believe our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog, interface, mixed signal and timing products, FPGA products, memory products and technology licensing revenue and the percentage of net sales of each of these products in a particular quarter, as well as manufacturing yields, fixed cost absorption, and competitive and economic conditions in the markets we serve.

In the three months ended December 31, 2019, we began to reduce the clean room footprint in our 6-inch wafer fabrication facility in Colorado and transfer certain higher volume products to our 8-inch wafer fabrication facilities in Arizona and Oregon. The 6-inch wafer fabrication facility in Colorado will be re-purposed to manufacture discrete and specialty products in addition to a lower volume of a diversified set of standard products. We anticipate that these actions will result in significant cost savings over the next several years. In the three months ended December 31, 2019, we incurred \$11.7 million in costs associated with these actions, which have been recorded within the special (income) charges and other, net line item in our statements of income.

We operate assembly and test facilities in Thailand, the Philippines, and other locations throughout the world. Approximately 45% of our assembly requirements were performed in our internal assembly facilities in each of the three and nine months ended December 31, 2019 compared to approximately 38% and 37% during the three and nine months ended December 31, 2018, respectively. Approximately 54% of our test requirements were performed in our internal test facilities during each of the three and nine months ended December 31, 2019 compared to approximately 49% and 48% during the three and nine months ended December 31, 2018, respectively. The increases in the percentage of assembly and test operations that were performed internally in the three and nine months ended December 31, 2019 compared to the three and nine months ended December 31, 2018 are primarily due to our investments in assembly and test equipment, which increased our internal capacity capabilities, and also due to adverse demand fluctuations in the markets we serve, which reduced our demand for external assembly and test operations. Third-party contractors located primarily in Asia perform the balance of our assembly and test operations. The percentage of our assembly and test operations that are performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry, our internal capacity capabilities and our acquisition activities. We believe that the assembly and test operations performed at our internal facilities provide us with significant cost savings compared to contractor assembly and test costs, as well as increased control over these portions of the manufacturing process. We plan to continue to transition certain outsourced assembly and test capacity to our internal facilities.

We rely on outside wafer foundries for a significant portion of our wafer fabrication requirements. Approximately 61% of our net sales came from products that were produced at outside wafer foundries in each of the three and nine months ended December 31, 2019 compared to approximately 60% and 56% during the three and nine months ended December 31, 2018, respectively. The increases were primarily due to our acquisition of Microsemi, which outsources the majority of its wafer fabrication requirements. The timing of the acquisition, which occurred on May 29, 2018, also contributed to the increase as the nine months ended December 31, 2019 included a full nine months of Microsemi activity compared to seven months in the nine months ended December 31, 2018.

[Table of Contents](#)

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

Research and Development (R&D)

R&D expenses for the three months ended December 31, 2019 were \$217.1 million, or 16.9% of net sales, compared to \$217.7 million, or 15.8% of net sales, for the three months ended December 31, 2018. R&D expenses for the nine months ended December 31, 2019 were \$656.0 million, or 16.6% of net sales, compared to \$611.6 million, or 15.2% of net sales, for the nine months ended December 31, 2018. We are committed to investing in new and enhanced products, including development systems software, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. R&D costs are expensed as incurred. Assets purchased to support our ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their expected useful lives. R&D expenses include labor, depreciation, masks, prototype wafers, and expenses for the development of process technologies, new packages, and software to support new products and design environments.

R&D expenses decreased \$0.6 million, or 0.3%, for the three months ended December 31, 2019 over the same period last year. R&D expenses increased \$44.4 million, or 7.3%, for the nine months ended December 31, 2019 over the same period last year. The primary reason for the increase in R&D costs in the nine months ended December 31, 2019 compared to the same period last year was additional costs from our acquisition of Microsemi.

R&D expenses fluctuate over time, primarily due to revenue and operating expense investment levels.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended December 31, 2019 were \$170.7 million, or 13.3% of net sales, compared to \$174.8 million, or 12.7% of net sales, for the three months ended December 31, 2018. Selling, general and administrative expenses for the nine months ended December 31, 2019 were \$510.9 million, or 12.9% of net sales, compared to \$515.5 million, or 12.8% of net sales, for the nine months ended December 31, 2018. Our goal is to continue to be more efficient with our operating expenses as our revenue increases. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses. Selling, general and administrative expenses also include costs related to our direct sales force, CEMs and ESEs who work in sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased \$4.1 million, or 2.3%, for the three months ended December 31, 2019 over the same period last year. Selling, general and administrative expenses decreased \$4.6 million, or 0.9%, for the nine months ended December 31, 2019 over the same period last year. The primary reasons for the decreases in selling, general and administrative expenses were reductions in personnel and associated costs in connection with synergies realized from our Microsemi acquisition, partially offset by remediation costs related to the network compromise discussed in Item 4 of this Form 10-Q.

Selling, general and administrative expenses fluctuate over time, primarily due to revenue and operating expense investment levels.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets for the three and nine months ended December 31, 2019 was \$248.7 million and \$745.4 million, respectively, compared to \$193.7 million and \$497.2 million for the three and nine months ended December 31, 2018, respectively. The primary reason for the increases in acquired intangible asset amortization was increased amortization from our acquisition of Microsemi partially offset by decreased amortization of intangible assets from our prior acquisitions.

Special (Income) Charges and Other, Net

During the three and nine months ended December 31, 2019, we incurred special charges and other, net of \$17.8 million and \$29.5 million, respectively. During the three months ended December 31, 2018, we earned special income and other, net of \$1.3 million. During the nine months ended December 31, 2018, we incurred special charges and other, net of \$57.0 million. The costs incurred during the three months ended December 31, 2019 were primarily related to restructuring of our wafer

[Table of Contents](#)

fabrication operations. Other restructuring expenses incurred during the nine months ended December 31, 2019 and December 31, 2018 were related to our most recent business acquisitions, and resulted from workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations.

Other Income (Expense)

Interest income in the three and nine months ended December 31, 2019 was \$0.6 million and \$2.3 million, respectively, compared to \$0.7 million and \$7.3 million, respectively, for the three and nine months ended December 31, 2018. The primary reason for the decrease in interest income in the nine months ended December 31, 2019 compared to the same period last year was lower invested cash balances. During the quarter ended June 30, 2018, we used a substantial portion of our cash to help finance the purchase price of our acquisition of Microsemi.

Interest expense in the three and nine months ended December 31, 2019 was \$119.7 million and \$381.9 million, respectively, compared to \$137.6 million and \$366.7 million, respectively, for the three and nine months ended December 31, 2018. The primary reason for the decrease in interest expense in the three months ended December 31, 2019 compared to the same period last year relates to the cumulative pay down of \$1.99 billion of our debt. The primary reason for the increase in interest expense in the nine months ended December 31, 2019 compared to the same period last year relates to our additional borrowings to help finance our acquisition of Microsemi.

During the nine months ended December 31, 2019, we recognized losses of \$2.0 million in connection with the amendment to our Revolving Credit Facility and the voluntary prepayment of a portion of the outstanding balance on our Term Loan Facility. During the three and nine months ended December 31, 2018, we recognized losses of \$0.2 million and \$4.3 million, respectively, with early pay downs of a portion of the outstanding balance on our Term Loan Facility and our Revolving Credit Facility.

Other loss, net in the three and nine months ended December 31, 2019 was \$1.5 million and \$0.2 million, respectively. Other loss, net in the three and nine months ended December 31, 2018 was \$2.5 million and \$12.4 million, respectively. The primary reason for these changes relates to foreign currency exchange rate fluctuations.

Provision for Income Taxes

We account for incomes taxes in accordance with ASC 740. Our provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. Our effective tax rate used for interim periods is based on an estimated annual effective tax rate including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. Our effective tax rates for the nine months ended December 31, 2019 and December 31, 2018 were not meaningful due to the amount of pre-tax income, and income tax benefits recorded during the period.

We are subject to taxation in many jurisdictions in which we have operations. The effective tax rates that we pay in these jurisdictions vary widely, but they are generally lower than our combined U.S. federal and state effective tax rate. Our domestic statutory tax rate for the three and nine months ended December 31, 2018 was approximately 22% and our domestic statutory tax rate for fiscal 2019 was approximately 22%. Our non-U.S. blended statutory tax rates for the three and nine months ended December 31, 2018 and fiscal 2019 were much lower than this amount. The difference in rates applicable in foreign jurisdictions results from a number of factors, including lower statutory rates, tax holidays, financing arrangements and other factors. Our effective tax rate has been, and will continue to be impacted by the geographical dispersion of our earnings and losses. Our effective tax rate for the nine months ended December 31, 2019 includes a \$337.0 million tax benefit related to the intra-group transfer of certain intellectual property rights, which reduced our effective tax rate for the nine months ended December 31, 2019 by 322.2%.

Our foreign tax rate differential benefit primarily relates to our operations in Thailand, Malta and Ireland. Our Thailand manufacturing operations are currently subject to numerous tax holidays granted to us based on our investment in property, plant and equipment in Thailand. Our tax holiday periods in Thailand expire at various times in the future; however, we actively seek to obtain new tax holidays, otherwise we will be subject to tax at the statutory tax rate of 20%. We do not expect the future expiration of any of our tax holiday periods in Thailand to have a material impact on our effective tax rate. As of December 2019, Microsemi's tax holiday in Malaysia expired, and going forward we will be subject to income tax in Malaysia at the 24% statutory tax rate, which we do not expect to have a material impact on our financial statements. The remaining material components of foreign income taxed at a rate lower than the U.S. are earnings accrued in Ireland at a 12.5% statutory tax rate and earnings accrued in Malta at a 0% to 5% tax rate.

[Table of Contents](#)

Various taxing authorities in the U.S. and other countries in which we do business are increasing their scrutiny of the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. For U.S. federal, and in general for U.S. state tax returns, our fiscal 2007 and later tax returns remain effectively open for examination by the taxing authorities. We are currently being audited by the tax authorities in the United States and in various foreign jurisdictions. At this time, we do not know what the outcome of these audits will be. We record benefits for uncertain tax positions based on an assessment of whether it is more likely than not that the tax positions will be sustained based on their technical merits under currently enacted law. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If the threshold is met, we recognize the largest amount of the tax benefit that is more than 50% likely to be realized upon ultimate settlement.

Liquidity and Capital Resources

We had \$402.3 million in cash, cash equivalents and short-term investments at December 31, 2019, a decrease of \$28.6 million from the March 31, 2019 balance.

Net cash provided by operating activities was \$1.17 billion in the nine months ended December 31, 2019 compared to \$1.27 billion in the nine months ended December 31, 2018. The decrease in net cash provided by operating activities in the nine months ended December 31, 2019 compared to the nine months ended December 31, 2018 was primarily due to lower net sales partially offset by increased operating cash flows resulting from synergies realized from our process efficiencies and restructuring efforts related to our acquisition of Microsemi as well as efforts focused on working capital management.

Net cash used in investing activities was \$97.7 million in the nine months ended December 31, 2019 compared to \$6.77 billion in the nine months ended December 31, 2018. During the nine months ended December 31, 2019, net investing activities primarily related to capital purchases and investments in other assets. In the nine months ended December 31, 2018, investing cash flows included net cash and cash equivalents used to finance our acquisition of Microsemi of \$7.85 billion net of \$340.0 million of cash and cash equivalents acquired, offset by net cash inflows of \$1.28 billion due to the sale of available-for-sale debt securities to fund our acquisition of Microsemi, and capital expenditures of \$188.8 million.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the nine months ended December 31, 2019 were \$55.7 million compared to \$188.8 million in the nine months ended December 31, 2018. Capital expenditures were primarily for the expansion of production capacity, the addition of research and development equipment and new office buildings. We currently intend to spend between \$100 million and \$120 million during the next twelve months to invest in equipment and facilities. We believe that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient manufacturing capacity to support the growth of our production capabilities for our new products and technologies and to bring in-house more of the assembly and test operations that are currently outsourced. We expect to finance our capital expenditures through our existing cash balances and cash flows from operations.

Net cash used in financing activities was \$1.11 billion in the nine months ended December 31, 2019 compared to net cash provided by financing activities of \$5.03 billion in the nine months ended December 31, 2018. The cash flows provided by financing activities during the nine months ended December 31, 2018, were favorably impacted by net proceeds from amounts borrowed to fund our acquisition of Microsemi. Significant transactions affecting our net financing cash flows include:

- in the first nine months of fiscal 2019, proceeds of \$3.0 billion from term loans made under the Term Loan Facility, net proceeds of \$3.73 billion from borrowings under our Revolving Credit Facility, net proceeds of \$1.99 billion from the issuance of our Senior Secured Notes and \$2.06 billion of cash used to repay Microsemi's existing debt,
- in the first nine months of fiscal 2019, \$1.27 billion of cash was used to pay down principal on the Term Loan Facility and the Credit Facility, net of amounts borrowed under the Credit Facility, respectively, compared to \$830.0 million of cash used to pay down principal on the Term Loan Facility and the Credit Facility, net of amounts borrowed under the Credit Facility, in the first nine months of fiscal 2020, and
- cash dividends paid to our stockholders of \$262.1 million and \$257.8 million during the nine months ended December 31, 2019 and 2018, respectively.

On May 29, 2018, we completed the acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. We paid an aggregate of approximately \$8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately \$53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards for our common stock, was approximately \$8.24 billion. In addition to the consideration transferred, we recognized \$3.23 billion in liabilities in our consolidated financial statements of Microsemi consisting of debt, taxes payable and deferred, pension obligations, restructuring, and contingent and other liabilities of which \$2.06 billion of existing debt was paid off. We financed the purchase price using approximately \$8.10 billion of borrowings consisting of \$3.10 billion of loans under our Revolving Credit Facility, \$3.00 billion under the Term Loan Facility, and \$2.00 billion in newly issued senior secured notes. We incurred \$22.0 million in acquisition costs related to the acquisition. During the nine months ended December 31, 2019, we voluntarily prepaid \$188.0 million of principal under the Term Loan Facility. During fiscal 2019, we voluntarily prepaid \$1.09 billion of principal under the Term Loan Facility, of which \$500.0 million was from funds borrowed under our Revolving Credit Facility. At December 31, 2019, we had \$1.72 billion of outstanding borrowings under our Term Loan Facility compared to \$1.91 billion at March 31, 2019.

[Table of Contents](#)

In September 2019, we amended our credit agreement dated May 29, 2018, to, among other things, reduce the margin added to the interest rate on revolving loans under the Credit Agreement. The amendment also allows us the option to refinance the term loans or revolving loans up to a certain dollar limit and the option to factor receivables and certain related assets. The amendment lowered the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion at June 30, 2019.

The Credit Agreement provides for a revolving loan facility in an aggregate principal amount of approximately \$3.57 billion, with a \$250.0 million foreign currency sublimit, a \$50.0 million letter of credit sublimit and a \$25.0 million swingline loan sublimit. The Credit Agreement also provides for the Term Loan Facility. The Revolving Credit Facility consists of \$3.57 billion of revolving loan commitments (the "2023 Revolving Loans") that terminate on May 18, 2023 (the "2023 Maturity Date"). The 2023 Revolving Loans bear interest, at our option, at the base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case, with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period. At December 31, 2019, we had \$2.62 billion of outstanding borrowings under the Revolving Credit Facility compared to \$3.27 billion at March 31, 2019. See Note 12 of the notes to our condensed consolidated financial statements for more information regarding our Credit Agreement.

The enactment of the Act in 2017 imposed a tax on all previously untaxed earnings of non-U.S. subsidiaries of U.S. corporations. Due to this change, the jurisdiction in which our cash is at any given point in time no longer has a significant impact on our liquidity. Future distributions of a significant portion of our non-U.S. assets to the U.S. will no longer be subject to U.S. federal taxation. We intend to invest substantially all of our foreign subsidiary earnings, as well as our capital in our foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which we would incur significant, additional costs upon repatriation of such amounts.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations has had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency rates in countries where we conduct operations will not adversely affect our operating results in the future. At December 31, 2019, we had no foreign currency forward contracts outstanding.

There were no repurchases of common stock during the nine months ended December 31, 2019. As of December 31, 2019, we held approximately 13.7 million shares as treasury shares.

On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. A quarterly dividend of \$0.3665 per share was paid on December 5, 2019 in the aggregate amount of \$87.7 million. A quarterly dividend of \$0.3670 per share was declared on February 4, 2020 and will be paid on March 6, 2020 to stockholders of record as of February 21, 2020. We expect the aggregate cash dividend for March 2020 to be approximately \$88.0 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions, our results of operations, and potential changes in tax laws.

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

Off-Balance Sheet Arrangements (Including Guarantees)

As of December 31, 2019, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K with the exception of standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by us or our subsidiaries. We have not recorded any liability in connection with these guarantee arrangements. Based on historical experience and information currently available, we believe we will not be required to make any payments under these guarantee arrangements. Prior to the first quarter of fiscal 2020, we did not record any liability in connection with various operating leases for buildings and equipment entered into in the ordinary course of business. We recorded the associated lease obligations as a liability when we adopted the provisions of the Accounting Standard Update 2016-02-Leases, which was effective April 1, 2019. Refer to Note 2 and Note 9 to our condensed consolidated financial statements for additional information regarding the adoption of this accounting standard.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2019, our long-term debt totaled \$10.83 billion. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$6.48 billion as of December 31, 2019. We do have interest rate exposure with respect to the \$4.35 billion balance of our variable interest rate debt outstanding as of December 31, 2019. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next 12 months by approximately \$21.7 million.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

In reviewing the accounting for certain transactions completed in fiscal 2019 as part of the realignment of our legal structure and other significant transactions, our management identified deficiencies in the operating effectiveness of controls intended to properly document and review relevant facts used to determine and apply the appropriate tax accounting under accounting standards generally accepted in the United States. Additionally, our controls did not operate to validate the completeness and accuracy of information used in the execution of certain key tax controls. These control deficiencies impacted the deferred tax, long-term income tax payable, and income tax benefit accounts and related disclosures and resulted in adjustments to our annual financial statements as of and for the year ended March 31, 2019. The errors arising from the underlying deficiencies are not material to the financial statements reported in any interim or annual period and therefore, did not result in a revision to previously filed financial statements. However, the control deficiencies could result in a failure to timely prevent or detect misstatements of the aforementioned accounts and disclosures that could be material to the annual or interim consolidated financial statements. Accordingly, our management has concluded that the deficiencies, in the aggregate, constitute a material weakness in our internal control over financial reporting.

In the fourth quarter of fiscal 2019, we also identified deficiencies in the design of our internal control over financial reporting as our management determined that there were not sufficient controls to prevent, detect and respond to unauthorized

[Table of Contents](#)

access to our IT systems in a timely manner. Network authentication, segmentation and monitoring were in place, but were not sufficiently designed to address changes in the current risk environment. Our management has concluded that these deficiencies, in the aggregate, constitute a material weakness in our internal control over financial reporting.

Remediation Plans and Other Information

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, we began implementing a remediation plan to address the foregoing material weaknesses. However, these material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect the remediation of these material weaknesses to be completed by the end of fiscal 2020.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2019, we transitioned certain of Microsemi's processes to our internal control processes and we expect to transition more of such processes throughout the remainder of fiscal 2020.

In connection with the identified material weaknesses related to accounting for income taxes and to IT system access, we have taken steps to remediate the material weaknesses as described above. However, other than with respect to our transition of Microsemi to our systems and control environment as described above, during the three months ended December 31, 2019, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to Note 13 to our condensed consolidated financial statements for information regarding legal proceedings.

Item 1A. RISK FACTORS

When evaluating Microchip and its business, you should give careful consideration to the factors listed below, in addition to the information provided elsewhere in this Form 10-Q and in other documents that we file with the Securities and Exchange Commission.

Our operating results are impacted by global economic conditions and may fluctuate in the future due to a number of factors that could reduce our net sales and profitability.

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

- general economic, industry or political conditions in the U.S. or internationally, including ongoing uncertainty surrounding Brexit and its implications;
- changes in demand or market acceptance of our products and products of our customers, and market fluctuations in the industries into which such products are sold;
- trade restrictions and changes in tariffs, including those impacting business in China, Japan, and South Korea, as well as those focused on specific companies;
- our ability to continue to realize the expected benefits of our acquisitions including our acquisition of Microsemi;
- disruptions in our business, our supply chain or our customers' businesses due to cybersecurity incidents, terrorist activity, armed conflict, war, worldwide oil prices and supply, public health concerns (including viral outbreaks such as the coronavirus), fires, natural disasters or disruptions in the transportation system;
- our ability to ramp our factory capacity to meet customer demand;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- changes or fluctuations in customer order patterns and seasonality;
- changes in tax regulations and policies in the U.S. and other countries in which we do business including the impact of the Tax Cuts and Jobs Act of 2017 (the "Act");
- new accounting pronouncements or changes in existing accounting standards and practices;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- levels of inventories held by our customers;
- risk of excess and obsolete inventories;
- competitive developments including pricing pressures;
- unauthorized copying of our products resulting in pricing pressure and loss of sales;
- availability of raw materials, supplies and equipment;
- our ability to successfully transition products to more advanced process technologies to reduce manufacturing costs;
- the level of orders that are received and can be shipped in a quarter, including the impact of product lead times;
- the level of sell-through of our products through distribution;
- fluctuations in our mix of product sales;
- announcements of other significant acquisitions by us or our competitors;
- constrained availability from other electronic suppliers impacting our customers' ability to ship their products, which in turn may adversely impact our sales to those customers;
- costs and outcomes of any current or future tax audits or any litigation, investigation or claims involving intellectual property, our Microsemi acquisition, customers or other issues;
- fluctuations in commodity or energy prices; and
- property damage or other losses, whether or not covered by insurance.

We believe that period-to-period comparisons of our operating results are not necessarily meaningful and that you should not rely upon any such comparisons as indications of our future performance. In future periods, our operating results may fall below our public guidance or the expectations of public market analysts and investors, which would likely have a negative effect on the price of our common stock. Uncertain global economic conditions have caused our operating results to fluctuate significantly and make comparability between periods less meaningful.

We may not fully realize the anticipated benefits of our completed or future acquisitions or divestitures including our acquisition of Microsemi.

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. On May 29, 2018, we completed our acquisition of Microsemi, which was our largest and most complex acquisition ever. In addition, in April 2016, we completed our acquisition of Atmel; and in August 2015, we completed our acquisition of Micrel. The integration process for our acquisitions is complex and may be costly and time consuming and include unanticipated issues, expenses and liabilities. We may not be able to successfully or profitably integrate, operate, maintain and manage any newly acquired operations or employees. We may not be able to maintain uniform standards, procedures and policies and we may be unable to realize the expected synergies and cost savings from the integration. There may be increased risk due to integrating financial reporting and internal control systems. We may have difficulty in developing, manufacturing and marketing the products of a newly acquired company, or in growing the business at the rate we anticipate. Following an acquisition, we may not achieve the revenue or net income levels that justify the acquisition. We may suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. We have been and may in the future be subject to claims from terminated employees, shareholders of Microchip or the acquired companies and other third parties related to the transaction. In particular, in connection with our Microsemi and Atmel acquisitions, we became involved with third-party claims, litigation, governmental investigations and disputes related to such businesses and transactions. See Note 13 to our condensed consolidated financial statements for information regarding such matters. Acquisitions may also result in charges (such as acquisition-related expenses, write-offs, restructuring charges, or future impairment of goodwill), contingent liabilities, adverse tax consequences, additional share-based compensation expense and other charges that adversely affect our operating results. To fund our acquisition of Microsemi, we used a significant portion of our cash balances and incurred approximately \$8.10 billion of additional debt. We may fund future acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our Revolving Credit Facility, raising debt, issuing shares of our common stock, or other mechanisms.

Further, if we decide to divest assets or a business, we may encounter difficulty in finding or completing divestiture opportunities or alternative exit strategies, which may include site closures, on acceptable terms or in a timely manner. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to assets or a business that we want to dispose of, or we may dispose of assets or a business at a price or on terms that are less favorable than we had anticipated. Even following a divestiture or other exit strategy, we may be contractually obligated with respect to certain continuing obligations to former employees, customers, vendors, landlords or other third parties. We may also have continuing obligations for pre-existing liabilities related to the former employees, assets or businesses. Such obligations may have a material adverse impact on our results of operations and financial condition.

In addition to acquisitions, we have in the past, and expect in the future, to enter into joint development agreements or other business or strategic relationships with other companies. These transactions are subject to a number of risks similar to those we face with our acquisitions including our ability to realize the expected benefits of any such transaction, to successfully market and sell any products resulting from such transactions or to successfully integrate any technology developed through such transactions.

Our financial condition and results of operations could be adversely affected if we do not effectively manage our current or future debt.

As of December 31, 2019, the principal amount of our outstanding indebtedness was \$10.83 billion. In connection with our acquisition of Microsemi, we incurred debt consisting of \$3.10 billion under our revolving line of credit, \$3.00 billion under our term loan facility, and \$2.00 billion in senior secured notes. At December 31, 2019, we had \$2.62 billion in outstanding borrowings under our revolving line of credit which provides up to \$3.57 billion of revolving loan commitments that terminate in 2023. At December 31, 2019, we had \$1.72 billion of outstanding borrowings under our term loan facility. At December 31, 2019, we had \$4.48 billion of outstanding principal related to our convertible debt consisting of \$2.76 billion of aggregate principal value issued in 2017 and \$1.72 billion of principal value issued in 2015.

As a result of such transactions, we have a substantially greater amount of debt than we had maintained in the past. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance our convertible debt, senior debt, term loan debt or any other future indebtedness and there can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.

[Table of Contents](#)

Servicing our current debt requires a significant amount of cash, we may not have sufficient cash flow from our business to fund future payments and any adverse changes in our credit ratings could increase our borrowing costs and could adversely affect our ability to access the debt markets.

Our ability to make scheduled payments of principal, to pay interest on or to refinance our indebtedness, including our outstanding convertible debt and debt incurred to finance our acquisition of Microsemi, depends on our future performance, which is subject to economic, financial, competitive and other factors. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and to fund capital expenditures, dividend payments, share repurchases or acquisitions. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. Our senior secured notes are rated by certain major credit rating agencies. These credit ratings impact our cost of borrowing and our ability to access the capital markets and are based on our financial performance and certain financial metrics including debt levels. There can be no assurance that we will be able to maintain our current credit ratings. Any downgrade of our credit rating by any of the major credit rating agencies could result in increased borrowing costs and could adversely affect our ability to access the debt markets to refinance our existing debt or finance future debt.

We are dependent on orders that are received and shipped in the same quarter and therefore have limited visibility to future product shipments.

Our net sales in any given quarter depend upon a combination of shipments from backlog and customer orders that are both received and shipped in that same quarter, which we refer to as turns orders. We measure turns orders at the beginning of a quarter based on the orders needed to meet the shipment targets that we set entering the quarter. Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduce our backlog visibility on future product shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times. Because turns orders are difficult to predict, varying levels of turns orders make it more difficult to forecast net sales. As a significant portion of our products are manufactured at foundries, foundry lead times may affect our ability to satisfy certain turns orders. If we do not achieve a sufficient level of turns orders in a particular quarter relative to our revenue targets, our revenue and operating results will likely suffer.

We may lose sales if suppliers of raw materials, components or equipment fail to meet our or our customers' needs or increase costs due to increased tariffs or other factors.

Our semiconductor manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have more than one source for these supplies, but there are only a limited number of suppliers capable of delivering various materials and equipment that meet our standards. The materials and equipment necessary for our business could become more difficult to obtain as worldwide use of semiconductors in product applications increases. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change the relationships that we have with our suppliers. Also, the application of trade restrictions or tariffs by the U.S. or other countries may adversely impact the industry supply chain. For example, the U.S. government has recently increased tariffs on products that have China as their country of origin and which are imported into the U.S. Likewise, the China government has increased tariffs on products that have the U.S. as their country of origin and which are imported into China. We have taken steps to attempt to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2019 and the nine months ended December 31, 2019. The recent additional tariffs imposed on components or equipment that we or our suppliers source from China will increase our costs and could have a material adverse impact on our operating results in the three months ending March 31, 2020 or future periods. We may also incur increases in manufacturing costs in mitigating the impact of tariffs on our operations. This could also impair sourcing flexibility. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time than expected to fill our orders or that they will no longer support certain equipment with updates or spare and replacement parts. In particular, we have recently experienced longer lead times for equipment which we need for capacity expansion at certain of our manufacturing facilities. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business.

Our customers may also be adversely affected by these same issues. The materials, components and equipment necessary for their businesses could become more difficult to obtain for various reasons not limited to business interruptions of suppliers, consolidation in their supply chain due to mergers and acquisitions, or application of trade restrictions or tariffs that impair

[Table of Contents](#)

sourcing flexibility or increase costs. If our customers are not able to produce their products, then their need for our products will decrease. Such interruptions of our customers' businesses could harm our business.

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

The semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and substantially greater financial, technical, marketing, distribution and other resources than we do. The semiconductor industry has experienced significant merger and acquisition activity and consolidation in recent years which has resulted in several of our competitors becoming much larger in terms of revenue, product offerings and scale. We may be unable to compete successfully in the future, which could harm our business. Our ability to compete successfully depends on a number of factors both within and outside our control, including, but not limited to:

- the quality, performance, reliability, features, ease of use, pricing and diversity of our products;
- our success in designing and manufacturing new products including those implementing new technologies;
- our ability to ramp production and increase capacity, as needed, at our wafer fabrication and assembly and test facilities;
- the rate at which customers incorporate our products into their own applications and the success of such applications;
- the rate at which the markets that we serve redesign and change their own products;
- our ability to obtain adequate foundry and assembly and test capacity and supplies of raw materials and other supplies at acceptable prices;
- changes in demand in the markets that we serve and the overall rate of growth or contraction of such markets, including but not limited to the automotive, personal computing and consumer electronics markets;
- product introductions by our competitors;
- the number, nature and success of our competitors in a given market;
- our ability to protect our products and processes by effective utilization of intellectual property rights;
- our ability to remain price competitive against companies that have copied our proprietary product lines, especially in countries where intellectual property rights protection is difficult to achieve and maintain;
- our ability to address the needs of our customers; and
- general market and economic conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The average selling prices of our microcontroller, FPGA, and proprietary analog, interface, mixed signal and timing products have remained relatively constant, while average selling prices of our memory and non-proprietary analog, interface, mixed signal and timing products have declined over time. The overall average selling price of our products is affected by these trends; however, variations in our product and geographic mix of sales can cause wider fluctuations in our overall average selling price in any given period.

We have experienced, and expect to continue to experience, modest pricing declines in certain of our more mature proprietary product lines, primarily due to competitive conditions. We have been able to moderate average selling price declines in many of our proprietary product lines by continuing to introduce new products with more features and higher prices. However, there can be no assurance that we will be able to do so in the future. We have experienced in the past, and expect to continue to experience in the future, varying degrees of competitive pricing pressures in our memory and non-proprietary analog, interface, mixed signal and timing products. We may be unable to maintain average selling prices for our products as a result of increased pricing pressure in the future, which could adversely impact our operating results.

We are dependent on wafer foundries and other contractors to perform key manufacturing functions for us, and our licensees of our SuperFlash and other technologies also rely on foundries and other contractors.

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. Specifically, during the first nine months of fiscal 2020, approximately 61% of our net sales came from products that were produced at outside wafer foundries compared to 57% of our net sales in fiscal 2019. We also use several contractors located primarily in Asia for a portion of the assembly and testing of our products. Specifically, during the first nine months of fiscal 2020, approximately 55% of our assembly requirements and 46% of our test requirements were performed by third party contractors compared to approximately 62% of our assembly requirements and 51% of our test requirements during fiscal 2019. Our reliance on third party contractors and foundries increased as a result of our acquisitions of Microsemi, Atmel, Micrel and other companies. The disruption or termination of any of our contractors could harm our business and operating results.

Our use of third parties somewhat reduces our control over the subcontracted portions of our business. Our future operating results could suffer if any contractor were to experience financial, operational or production difficulties or situations when demand exceeds capacity, or if they were unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels, or if the countries in which such contractors are located were to experience political upheaval or infrastructure disruption. If these third parties are unable or unwilling to timely deliver products or services conforming to our quality standards, we may not be able to qualify additional manufacturing sources for our products in a timely manner on terms favorable to us, or at all. Additionally, these subcontractors could abandon fabrication processes that are important to us, or fail to adopt advanced manufacturing technologies that we desire to control costs. In any such event, we could experience an interruption in production, an increase in manufacturing and production costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, our use of subcontractors increases the risks of potential misappropriation of our intellectual property.

Certain of our SuperFlash and other technology licensees also rely on outside wafer foundries for wafer fabrication services. If our licensees were to experience any disruption in supply from outside wafer foundries, this would reduce the revenue we receive in our technology licensing business and would harm our operating results.

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

The manufacture and assembly of integrated circuits, particularly non-volatile, erasable CMOS memory and logic devices such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used, the performance of our wafer fabrication and assembly and test personnel and equipment, and other quality issues. As is typical in the semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at or above approximately the current levels. This could include delays in the recognition of revenue, loss of revenue or future orders, and customer-imposed penalties for our failure to meet contractual shipment deadlines. Our operating results are also adversely affected when we operate at less than optimal capacity. During the three and nine months ended December 31, 2019, we operated at below normal capacity levels resulting in unabsorbed capacity charges of \$17.1 million and \$33.3 million, respectively. In certain periods in fiscal 2019, we operated at below normal capacity levels resulting in an unabsorbed capacity charge of \$16.2 million.

Our operating results are impacted by both seasonality and the wide fluctuations of supply and demand in the semiconductor industry.

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Historically, since a significant portion of our revenue is from consumer markets and international sales, our business tends to generate stronger revenues in the first and second quarters and comparatively weaker revenues in the third and fourth quarters of our fiscal year. Broad fluctuations in our overall business, changes in semiconductor industry and global economic conditions (including trade tensions) and our acquisition activity (including our acquisition of Microsemi) have had and can have a more significant impact on our results than seasonality. As a result, in periods when these broad fluctuations, changes in business conditions or acquisitions occur, it is difficult to assess the impact of seasonal factors on our business. The semiconductor industry has also experienced significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclically by selling proprietary products, that cannot be easily or quickly replaced, to a geographically diverse customer base across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions.

Our business is dependent on distributors to service our end customers.

Sales to distributors accounted for approximately 50% of our net sales in the first nine months of fiscal 2020 and approximately 51% of our net sales in fiscal 2019. We do not have long-term agreements with our distributors, and we and our distributors may each terminate our relationship with little or no advance notice.

Any future adverse conditions in the U.S. or global economies or in the U.S. or global credit markets could materially impact the operations of our distributors. Any deterioration in the financial condition of our distributors or any disruption in the operations of our distributors could adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry or economic downturn, it is possible there will be an oversupply of products and a decrease in demand for our products from our distributors, which could reduce our net sales in a given period

[Table of Contents](#)

and result in an increase in inventory returns. Violations of the Foreign Corrupt Practices Act, or similar laws, by our distributors or other channel partners could have a material adverse impact on our business.

Our success depends on our ability to introduce new products on a timely basis.

Our future operating results depend on our ability to develop and timely introduce new products that compete effectively on the basis of price and performance and which address customer requirements. The success of our new product introductions depends on various factors, including, but not limited to:

- effective new product selection;
- timely completion and introduction of new product designs;
- procurement of licenses for intellectual property rights from third parties under commercially reasonable terms;
- timely filing and protection of intellectual property rights for new product designs;
- availability of development and support tools and collateral literature that make complex new products easy for engineers to understand and use; and
- market acceptance of our customers' end products.

Because our products are complex, we have experienced delays from time to time in completing new product development. In addition, our new products may not receive or maintain substantial market acceptance. We may be unable to timely design, develop and introduce competitive products, which could adversely impact our future operating results.

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

We continue to be the target of attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems and any interruptions in our IT systems, unauthorized access to our IT systems or improper handling of data, could adversely affect our business.

We rely on the efficient and uninterrupted operation of complex IT systems and networks to operate our business. Any significant disruption to our systems or networks, including, but not limited to, new system implementations, computer viruses, security breaches, facility issues, natural disasters, terrorism, war, telecommunication failures or energy blackouts could have a material adverse impact on our business, operations, sales and operating results. Such disruption could result in a loss of our intellectual property or the release of sensitive competitive information or supplier, customer or employee personal data. Any loss of such information could harm our business or competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by any such disruptions or security breaches. Additionally, any failure to properly manage the collection, handling, transfer or disposal of personal data of employees and customers may result in regulatory penalties, enforcement actions, remediation obligations, litigation, fines and other sanctions.

From time to time, we have experienced verifiable attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems. For example, in fiscal 2019 we learned of an ongoing compromise of our computer networks by what is believed to be sophisticated hackers. We engaged experienced legal counsel and a leading forensic investigatory firm with experience in such matters. We have taken steps to identify malicious activity on our network including a compromise of our network and, in May 2019, we began implementing a containment plan. We are continuing to evaluate the effectiveness of the containment plan and the amount and content of the information that was compromised and to implement additional remedial actions. At this time, we do not believe that this IT system compromise has had a material adverse effect on our business or resulted in any material damage to us. However, we are still evaluating the amount and type of data that was compromised and there can be no assurance as to what the impact of this IT system compromise will be. As a result of the IT system compromise, our management, including our chief executive officer and our chief financial officer, has concluded that our internal controls related to IT system access were not effective resulting in a material weakness in our internal controls. For additional information, refer to Item 4 "Controls and Procedures".

Due to the types of products we sell and the significant amount of sales we make to government agencies or customers whose principal sales are to U.S. government agencies, we expect to continue to be the target of attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems. Were any future attacks to be successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. In recent years, we have

[Table of Contents](#)

implemented improvements to our protective measures which include, but are not limited to, the following: firewalls, endpoint detection and response software, patches, log monitors, event correlation tools, routine backups with offsite retention of storage media, system audits, dual factor identification, data partitioning and routine password modifications. As a result of the material weakness in our internal controls resulting from the IT systems compromise, we have taken remediation actions and implemented additional controls and we plan to continue to take further actions to attempt to address evolving threats. Recent system improvements have not been fully effective in preventing attacks on our data and breaches to our security and there can be no assurance that any future system improvements will be effective in preventing attacks or breaches or limiting the damage from any future cyber attacks or disruptions. Such system improvements have resulted in increased costs to us and any future improvements, attack or disruption could result in additional costs related to rebuilding of our internal systems, defending litigation, responding to regulatory actions, or paying damages. Such attacks or disruptions could have a material adverse impact on our business, operations and financial results.

Third-party service providers, such as wafer foundries, assembly and test contractors, distributors, credit card processors and other vendors have access to certain portions of our and our customers' sensitive data. In the event that these service providers do not properly safeguard the data that they hold, security breaches and loss of data could result. Any such loss of data by our third-party service providers could negatively impact our business, operations and financial results, as well as our relationship with our customers.

If we fail to remediate our material weaknesses and achieve and maintain proper and effective internal control and remediate current or future deficiencies, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

As discussed in Item 4 "Controls and Procedures" of our Form 10-K filed on May 30, 2019, in the fourth quarter of fiscal 2019, we identified a material weakness in our internal controls related to accounting for income taxes and we also identified a material weakness in our internal controls related to IT system access. Internal controls related to such matters are important to accurately reflect our financial position and results of operations in our financial reports. We are in the process of remediating the material weaknesses, but our efforts may not be successful. If we are unable to remediate the material weaknesses in an appropriate and timely manner, or if we identify additional control deficiencies that individually or together constitute significant deficiencies or material weaknesses, our ability to accurately record, process, and report financial information and consequently, our ability to prepare financial statements within required time periods, could be adversely affected. Failure to maintain effective internal controls could result in violations of applicable securities laws, stock exchange listing requirements, and the covenants under our debt agreements, subject us to litigation and investigations, negatively affect investor confidence in our financial statements, and adversely impact our stock price and ability to access capital markets.

Ensuring that we have adequate internal financial and accounting controls and procedures so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our 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 in accordance with United States generally accepted accounting principles. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 which requires an annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. In addition to the identified material weaknesses related to accounting for income taxes and to IT system access, we have from time to time identified significant deficiencies related to other matters. If we fail to remediate our material weaknesses or significant deficiencies or to maintain proper and effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

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

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

Business interruptions to our operations or the operations of our key vendors, subcontractors, licensees or customers, whether due to natural disasters, cybersecurity incidents, or other events, could harm our business.

[Table of Contents](#)

Operations at any of our facilities, at the facilities of any of our wafer fabrication or assembly and test subcontractors, or at any of our significant vendors or customers may be disrupted for reasons beyond our control. These reasons may include work stoppages, power loss, insufficient water, cyber attacks, computer network compromises, incidents of terrorism or security risk, political instability, public health issues (including viral outbreaks such as the coronavirus), telecommunications, transportation or other infrastructure failure, radioactive contamination, fire, earthquake, floods, droughts, volcanic eruptions or other natural disasters. We have taken steps to mitigate the impact of some of these events should they occur; however, we cannot be certain that our actions will be effective to avoid a significant impact on our business in the event of a disaster or other business interruption.

In particular, Thailand has experienced periods of severe flooding in recent years. While our facilities in Thailand have continued to operate normally, there can be no assurance that any future flooding in Thailand would not have a material adverse impact on our operations. If operations at any of our facilities, or our subcontractors' facilities are interrupted, we may not be able to shift production to other facilities on a timely basis, and we may need to spend significant amounts to repair or replace our facilities and equipment. If we experienced business interruptions, we would likely experience delays in shipments of products to our customers and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues and profits and the cancellation of orders or loss of customers. Although we maintain business interruption insurance, such insurance will likely not be enough to compensate us for any losses that may occur and any losses or damages incurred by us as a result of business interruptions could significantly harm our business.

Additionally, operations at our customers and licensees may be disrupted for a number of reasons. In the event of customer disruptions, sales of our products may decline and our revenue, profitability and financial condition could suffer. Likewise, if our licensees are unable to manufacture and ship products incorporating our technology, or if there is a decrease in product demand due to a business disruption, our royalty revenue may decline.

Our technology licensing business exposes us to various risks.

Our technology licensing business is based on our SuperFlash and other technologies. The success of our licensing business depends on the continued market acceptance of these technologies and on our ability to further develop and enhance such technologies and to introduce new technologies in the future. To be successful, any such technology must be able to be repeatably implemented by licensees, provide satisfactory yield rates, address licensee and customer requirements, and perform competitively. The success of our technology licensing business depends on various other factors, including, but not limited to:

- proper identification of licensee requirements;
- timely development and introduction of new or enhanced technology;
- our ability to protect and enforce our intellectual property rights for our licensed technology;
- our ability to limit our liability and indemnification obligations to licensees;
- availability of sufficient development and support services to assist licensees in their design and manufacture of products integrating our technology;
- availability of foundry licensees with sufficient capacity to support OEM production; and
- market acceptance of our customers' end products.

Because our licensed technologies are complex, there may be delays from time to time in developing and enhancing such technologies. There can be no assurance that our existing or any enhanced or new technology will achieve or maintain substantial market acceptance. Our licensees may experience disruptions in production or lower than expected production levels which would adversely affect the revenue that we receive from them. Our technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from intellectual property matters. We could be exposed to substantial liability for claims or damages related to intellectual property matters or indemnification claims. Any claim, with or without merit, could result in significant legal fees and require significant attention from our management. Any of the foregoing issues may adversely impact the success of our licensing business and adversely affect our future operating results.

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

We are currently, and in the future may be, involved in legal proceedings, investigations or claims regarding patent infringement, other intellectual property rights, product failures, our Microsemi acquisition, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from third parties from time to time who believe that we owe them indemnification or other obligations related to claims made against us, our direct or indirect customers or our licensees. These legal proceedings and claims, even if meritless, could result in substantial costs to us and divert our resources. If we are not able to resolve a claim, settle a matter, obtain necessary licenses on commercially reasonable terms, reengineer our products

[Table of Contents](#)

or processes to avoid infringement, provide a cost-effective remedy, or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take an appropriate charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, and our business, financial condition or results of operations could be harmed.

It is also possible that from time to time we may be subject to claims related to the manufacture, performance or use of our products. These claims may be due to injuries, economic damage or environmental exposures related to manufacturing, a product's nonconformance to our specifications or specifications agreed upon with the customer, changes in our manufacturing processes, or unexpected customer system issues due to the integration of our products or insufficient design or testing by our customers. We could incur significant expenses related to such matters, including, but not limited to:

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

Because the systems into which our products are integrated have a higher cost of goods than the products we sell, the expenses and damages we are asked to pay may be significantly higher than the sales and profits we received from the products involved. While we specifically exclude consequential damages in our standard terms and conditions, certain of our contracts may not exclude such liabilities. Further, our ability to avoid such liabilities may be limited by applicable law. We do have liability insurance which covers certain damages arising out of product defects, but we do not expect that insurance will cover all claims or be of a sufficient amount to fully protect against such claims. Costs or payments we may make in connection with these customer claims may adversely affect the results of our operations.

Further, we sell to customers in industries such as automotive, aerospace, defense, safety, security, and medical, where failure of the systems in which our products are integrated could cause damage to property or persons. We may be subject to claims if our products, or the integration of our products, cause system failures. We will face increased exposure to claims if there are substantial increases in either the volume of our sales into these applications or the frequency of system failures integrating our products.

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

Our ability to obtain patents, licenses and other intellectual property rights covering our products and manufacturing processes is important for our success. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our technology and manufacturing processes. The process of seeking patent protection can be long and expensive, and patents may not be issued from currently pending or future applications. In addition, our existing and new patents, trademarks and copyrights that issue may not have sufficient scope or strength to provide meaningful protection or commercial advantage to us. We may be subject to, or may ourselves initiate, interference proceedings in the U.S. Patent and Trademark Office, patent offices of a foreign country or U.S. or foreign courts, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S. Infringement of our intellectual property rights by a third party could result in uncompensated lost market and revenue opportunities for us. Although we continue to vigorously and aggressively defend and protect our intellectual property on a worldwide basis, there can be no assurance that we will be successful in our endeavors.

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

We regularly review the financial performance of our licensees, customers, distributors and suppliers. However, any downturn in global economic conditions may adversely impact the financial viability of our licensees, customers, distributors or suppliers. The financial failure of a large licensee, customer or distributor, an important supplier, or a group thereof, could have an adverse impact on our operating results and could result in our not being able to collect our accounts receivable balances, higher reserves for doubtful accounts, write-offs for accounts receivable, and higher operating costs as a percentage of net sales.

Regulatory authorities in jurisdictions into or from which we ship our products could levy fines, restrict or delay our ability to export or transfer products, or increase costs associated with the manufacture or transfer of products.

[Table of Contents](#)

A significant portion of our sales are made through the exporting and importing of products. In addition to local jurisdictions' trade regulations, our U.S.-manufactured products or products based on U.S. technology are subject to U.S. laws and regulations governing international trade, including, but not limited to the Foreign Corrupt Practices Act, Export Administration Regulations, International Traffic in Arms Regulations and trade sanctions against embargoed countries and denied entities administered by the U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC). Licenses or proper license exceptions are required for the shipment of our products to certain countries. A determination by the U.S. or foreign government that we have failed to comply with trade or export regulations or anti-bribery regulations can result in penalties which may include denial of export privileges, fines, civil or criminal penalties, and seizure of products. Such penalties could have a material adverse effect on our business, sales and earnings. Further, a change in these laws and regulations could restrict our ability to transfer product to previously permitted countries, customers, distributors or other third parties. For example, in fiscal 2019, the U.S. Commerce Department banned U.S. companies from selling products or transferring technology to ZTE, a Chinese company, and certain of its subsidiaries. In fiscal 2020, the U.S. Commerce Department banned U.S. companies from selling products or transferring technology to certain Chinese companies, including Huawei and certain of its subsidiaries. Any one or more of these sanctions, future sanctions, a change in laws or regulations, or a prohibition on shipment of our products or transfer of our technology to significant customers could have a material adverse effect on our business, financial condition and results of operations.

For certain of our products associated with our Microsemi acquisition, we rely on U.S. export licenses to ship our products to non-U.S. customers. In 2018, there was a federal government shutdown from January 20, 2018 to January 23, 2018 and a second shutdown from December 22, 2018 through January 25, 2019. Due to the U.S. federal government shutdown, the agency that approves these export licenses was temporarily closed. This resulted in a delay in certain shipments that were scheduled to ship within the quarter. Although this delay did not result in a material adverse impact on our revenue in previous quarters, it could have a material adverse impact on our revenue within the quarter of any future government shutdown, and in the following quarter depending on the ability of the governmental agency to expedite processing of licenses delayed during the shutdown.

The U.S. and other countries have levied tariffs and taxes on certain goods and implemented trade restrictions on materials and products. Trade tensions between the U.S. and China escalated in 2018 and 2019, including the U.S. increasing tariffs on Chinese origin goods, and China increasing tariffs on U.S. goods. Some of our products were affected and are continuing to be affected by the increased tariffs. Higher duties on existing tariffs and further rounds of tariffs have been recently announced or threatened by the U.S. and Chinese administrations. We have taken steps to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2019 and the first, second and third quarters of fiscal 2020. The recent additional tariffs imposed on components or equipment that we or our suppliers source from China will increase our costs and could have a material adverse impact on our operating results in the three months ending March 31, 2020 or future periods. Increased tariffs on our customers' products could impact their sales of their products, and increased tariffs on our products in comparison to those of our competitors could each result in lower demand for our products. Additionally, the Japan-South Korea trade dispute could put pressures on our Japanese and South Korean customers, and the ongoing uncertainty regarding Brexit and its implications could also result in lower demand for our products.

Further changes in trade policy, tariffs, additional taxes, restrictions on exports or other trade barriers, may limit our ability to produce products, increase our selling and/or manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products, which could have a material adverse effect on our business, results of operations or financial conditions.

We are highly dependent on foreign sales and operations, which exposes us to foreign political and economic risks including risks from recent increases in tariffs.

Sales to foreign customers account for a substantial portion of our net sales. During the first nine months of fiscal 2020, approximately 79% of our net sales were made to foreign customers, including 21% in China, 15% in Taiwan and 10% in Germany. During fiscal 2019, approximately 80% of our net sales were made to foreign customers, including 22% in China and 13% in Taiwan.

A strong position in the Chinese market is a key component of our global growth strategy. The market for integrated circuit products in China is highly competitive, and both international and domestic competitors are aggressively seeking to increase their market share. Increased competition or economic weakness in the China market has recently made it more difficult for us to achieve our desired sales volumes in China. In particular, the trade relationship between the U.S. and China has worsened, economic conditions in China remain uncertain, and we are unable to predict whether such uncertainty will continue or worsen in future periods. The U.S. government has increased tariffs on products that have China as their country of

[Table of Contents](#)

origin and which are imported into the U.S. Likewise, the China government has increased tariffs on products that have the U.S. as their country of origin and which are imported into China. We have taken steps to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2019 and the first, second and third quarters of fiscal 2020. The recent additional tariffs imposed on components or equipment that we or our suppliers source from China will increase our costs and could have a material adverse impact on our operating results in the three months ending March 31, 2020 or future periods. Additionally, tariffs on our customers' products could impact their sales of such end products, resulting in lower demand for our products. We may also incur increases in manufacturing costs in mitigating the impact of tariffs on our customers.

Additionally, the Japan-South Korea trade dispute could put pressure on our Japanese and South Korean customers. These pressures may result in various negative effects such as a decrease in the supply of raw materials or components needed to complete products, an increase in costs of raw materials or components, the inability to receive licenses to sell their products in the other country, boycotts, or similar actions. These negative effects on our customers may then result in decreased demand for our products and decreased revenue.

We purchase a substantial portion of our raw materials and equipment from foreign suppliers. In addition, we own product assembly and testing facilities near Bangkok, Thailand, which has experienced periods of political instability in the past. A large portion of our finished goods inventory is maintained in Thailand. From time to time, Thailand has also experienced periods of severe flooding. There can be no assurance that any future flooding or political instability in Thailand would not have a material adverse impact on our operations. As part of our Atmel acquisition, we acquired a test facility in Calamba, Philippines. We use various foundries and other foreign contractors for a significant portion of our assembly and testing and wafer fabrication requirements.

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

- political, social and economic instability;
- trade restrictions and changes in tariffs;
- potentially adverse tax consequences;
- economic uncertainty in the worldwide markets served by us;
- import and export license requirements and restrictions;
- changes in rules and laws related to taxes, environmental, health and safety, technical standards and consumer protection in various jurisdictions;
- currency fluctuations and foreign exchange regulations;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions due to cybersecurity incidents;
- disruptions in international transport or delivery;
- public health conditions (including viral outbreaks such as the coronavirus); and
- difficulties in collecting receivables and longer payment cycles.

If any of these risks materialize, or are worse than we anticipate, our sales could decrease and our operating results could suffer, we could face an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, longer payment cycles, increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Further changes in trade policy, tariffs, additional taxes, or restrictions on supplies, equipment, and raw materials including rare earth minerals, may limit our ability to produce products, increase our selling and/or manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial conditions.

Our contractual relationships with our customers expose us to risks and liabilities.

We do not typically enter into long-term contracts with our non-distributor customers, and therefore we cannot be certain about future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. Even though we had approximately 120,000 customers and our ten largest direct customers made up approximately 12% of our total revenue for the nine months ended December 31, 2019 and five of our top ten direct customers are contract manufacturers that perform manufacturing services for many customers, cancellation of customer contracts could have an adverse impact on our revenue and profits.

We have contracts with certain customers that differ from our standard terms of sale. For several of the significant markets that we sell into, such as the automotive and personal computer markets, our current or potential customers may possess significant leverage over us in negotiating the terms and conditions of supply as a result of their market size and position. For example, under certain contracts we may commit to supply specific quantities of products on scheduled delivery dates, or agree to extend our obligations for certain liabilities such as warranties or indemnification for quality issues or claims of intellectual property infringement. If we are unable to supply the customer as required under the contract, the customer may incur additional production costs, lost revenues due to subsequent delays in their own manufacturing schedule, or quality-related issues. We may be liable for the customer's costs, expenses and damages associated with their claims and we may be obligated to defend the customer against claims of intellectual property infringement and pay the associated legal fees. While we try to minimize the number of contracts which contain such provisions, manage the risks underlying such liabilities, and set caps on our liability exposure, sometimes we are not able to do so. In order to win important designs, avoid losing business to competitors, maintain existing business, or be permitted to bid on new business, we have been, and may in the future be, forced to agree to uncapped liability for such items as intellectual property infringement, product failure, or confidentiality. Such provisions expose us to risk of liability far exceeding the purchase price of the products we sell under such contracts, the lifetime revenues we receive from such products, or various forms of potential consequential damages. Further, where we do not have negotiated contracts with our customers, the terms of our customer's orders may govern the transaction and contain terms that are not favorable to us. These significant additional risks could result in a material adverse impact on our results of operations and financial condition.

Reliance on government contracts and sales to governmental agencies could have a material adverse effect on our results of operations.

A significant portion of the sales of Microsemi (which we acquired in May 2018) are from or are derived from government agencies or customers whose principal sales are to U.S. government agencies. Such sales are subject to uncertainties regarding governmental spending levels, spending priorities, regulatory and policy changes. Future sales to U.S. government agencies or their prime customers are also subject to uncertain government appropriations and national defense policies and priorities, including the constraints of the budgetary process, changes in the timing and potential spending priorities and the impact of any past or future government shutdowns, contract terminations or renegotiations, or future sequestrations. Such sales are also subject to uncertainties related to monetary, regulatory, tax and trade policies implemented by current or future administrations or by the U.S. Congress.

In the past, Microsemi has experienced delays and reductions in appropriations on programs that included its products. For example, there were federal government shutdowns from January 20, 2018 to January 23, 2018 and from December 22, 2018 through January 25, 2019. Further delays, reductions in or terminations of government contracts or subcontracts, including those caused by any past or future shutdown of the U.S. federal government, could materially and adversely affect our operating results. If the U.S. government fails to complete its annual budget process or to provide for a continuing resolution to fund government operations, another federal government shutdown may occur, during which time we may experience further delays and reductions in appropriations or reductions in or terminations of government contracts or subcontracts, which could materially and adversely affect our operating results. While we generally function as a subcontractor in these type of transactions, further changes in U.S. government procurement regulations and practices, particularly surrounding initiatives to reduce costs or increase compliance obligations (such as the Cybersecurity Maturity Model Certification), may adversely impact the contracting environment and our operating results.

[Table of Contents](#)

The U.S. government and its contractors may terminate their contracts with Microsemi or us at any time. For example, in 2014, Microsemi had a \$75 million contract terminated for convenience by the U.S. government. Uncertainty with respect to government spending and termination of contracts associated with government related projects could have a material adverse impact on the revenue and other benefits we achieve from our Microsemi acquisition. Our business related to U.S. governmental agencies or customers not only requires us to comply with the contract terms, but also with applicable governmental regulations, particularly for our facilities, systems and personnel that service such customers. Maintaining compliance with these regulations, including any audit requirements, requires that we devote significant resources to such matters in terms of training, personnel, information technology and facilities. Any failure to maintain compliance with these requirements may result in fines and penalties and loss of current or future business that may materially and adversely affect our operating results.

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

Our success depends upon the efforts and abilities of our senior management, engineering, manufacturing and other personnel. The competition for qualified engineering and management personnel can be intense. We may be unsuccessful in retaining our existing key personnel or in attracting and retaining additional key personnel that we require. The loss of the services of one or more of our key personnel or the inability to add key personnel could harm our business. The loss of, or any inability to attract personnel, even if not key personnel, if experienced in sufficient numbers could harm our business. We have no employment agreements with any member of our senior management team.

Fluctuations in foreign currency exchange rates could adversely impact our operating results.

We use forward currency exchange contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the value of our non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition. In particular, in periods when a foreign currency significantly declines in value in relation to the U.S. dollar, customers transacting in that foreign currency may find it more difficult to fulfill their previously committed contractual obligations or to undertake new obligations to make payments or purchase products. In periods when the U.S. dollar is significantly declining in relation to the British pound, Euro, Thai baht, Taiwan dollar and Malaysian ringgit, the operational costs in our European and Thailand subsidiaries are adversely affected. Although our business has not been materially adversely impacted by recent changes in the value of the U.S. dollar, there can be no assurance as to the future impact that any weakness or strength in the U.S. dollar will have on our business or results of operations.

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

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

We are subject to stringent environmental and other regulations, which may force us to incur significant expenses.

We must comply with all applicable federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous substances used in our products and manufacturing processes. Our failure to comply, or the failure of entities that we have acquired over time to have complied, with applicable regulations could result in significant fines, liability for clean up, suspension of production, cessation of operations or future liabilities. Such environmental regulations have required us in the past, and could require us in the future, to buy costly equipment or to incur significant expenses to comply with such regulations. Our failure to control the use of, or adequately restrict the discharge of, hazardous substances could impact the health of our employees and others and could impact our ability to operate. Such failure could also restrict our ability to ship certain products to certain countries, require us to modify our operations' logistics, or require us to incur other significant costs and expenses. There is a continuing expansion in environmental laws with a focus on reducing or eliminating hazardous substances and substances of high concern in electronic products and shipping materials. These and other future environmental regulations could require us to reengineer certain of our existing products and may make it more expensive for us to manufacture, sell and ship our products. In addition, the number and complexity of laws focused on the energy efficiency of electronic products and accessories, the recycling of electronic products,

[Table of Contents](#)

and the reduction in the quantity and the recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may not have sufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may also have to write off inventory in the event that we hold unsaleable inventory as a result of changes to regulations or customer requirements. We expect these risks and trends to continue. In addition, we anticipate increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances of high concern in our products, energy efficiency measures, and supplier practices associated with sourcing and manufacturing. These requirements may increase our own costs, as well as those passed on to us by our supply chain.

Customer demands for us to implement business practices that are more stringent than existing legal requirements may reduce our revenue opportunities or cause us to incur higher costs.

Some of our customers and potential customers are requiring that we implement operating practices that are more stringent than what is required by applicable laws with respect to workplace and labor requirements, the type of materials we use in our products, environmental matters or other items. To comply with such requirements, we may have to pass these same operating practices on to our suppliers. Our suppliers may refuse to implement these operating practices, or may charge us more for complying with them. The cost to implement such practices may cause us to incur higher costs and reduce our profitability, and if we choose not to implement such practices, such customers may disqualify us as a supplier, resulting in decreased revenue opportunities. Developing, administering, monitoring and auditing these customer-requested practices at our own sites and those in our supply chain will increase our costs and may require that we hire more personnel.

Customer demands and regulations related to conflict-free minerals may force us to incur additional expenses.

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released investigation, disclosure and reporting requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and which are necessary to the functionality or production of products. We filed a report on Form SD with the SEC regarding such matters on May 31, 2019. Other countries are considering similar regulations. If we cannot certify that we are using conflict-free minerals, customers may demand that we change the sourcing of minerals and other materials used in the manufacture of our products, even if the costs for compliant minerals and materials significantly increases and availability is limited. If we make changes to materials or suppliers, there will likely be costs associated with qualifying new suppliers and production capacity and quality could be negatively impacted. Our relationships with customers and suppliers may be adversely affected if we are unable to certify that our products are "conflict-free." We have incurred, and expect in the future to incur, additional costs associated with complying with these new disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict free in a materially different manner than advocated by the Responsible Minerals Initiative or the Dodd-Frank Wall Street Reform and Consumer Protection Act. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold.

The outcome of future examinations of our income tax returns could have an adverse effect on our results of operations.

We are subject to examination of our income tax returns by the IRS and other tax authorities for fiscal 2007 and later. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2007 and later. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examinations. There can be no assurance that the final determination of any of these or any future examinations will not have an adverse effect on our effective tax rates, financial position and results of operations.

Exposure to greater than anticipated income tax liabilities, changes in tax rules and regulations (including the Act), changes in the interpretation of tax rules and regulations, or unfavorable assessments from tax audits could affect our effective tax rates, financial condition and results of operations.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our income tax obligations could be affected by many factors, including but not limited to changes to our corporate operating structure, intercompany arrangements and tax planning strategies.

Our income tax expense is computed based on tax rates at the time of the respective financial period. Our future effective tax rates, financial condition and results from operations could be unfavorably affected by changes in the tax rates in

[Table of Contents](#)

jurisdictions where our income is earned, by changes in the tax rules and regulations or the interpretation of tax rules and regulations in the jurisdictions in which we do business or by changes in the valuation of our deferred tax assets.

Currently, a majority of our revenue is generated from customers located outside the U.S., and a substantial portion of our assets, including employees, are located outside of the U.S. The adoption of the Act significantly changed the taxation of U.S.-based multinational corporations, by, among other things, reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, assessing a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creating new taxes on certain foreign-sourced earnings. The Act is unclear in some respects and will require interpretations and continued implementation of regulations by the Internal Revenue Service, as well as state tax authorities, and the legislation could be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the Act, along with the state tax impact of these changes and potential future cash distributions, will likely have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

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

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

- quarterly variations in our operating results or the operating results of other technology companies;
- our ability to continue to realize the expected benefits of our acquisition of Microsemi;
- changes in our financial guidance or our failure to meet such guidance;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- general conditions in the semiconductor industry;
- global economic and financial conditions;
- any other acquisitions we pursue or complete; and
- actual or anticipated announcements of technical innovations or new products by us or our competitors.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for many companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations and other factors have harmed and may harm the market price of our common stock. Some or all of the foregoing factors could also cause the market price of our convertible debentures to decline or fluctuate substantially.

Anti-takeover defenses in our charter documents and under Delaware law could discourage takeover attempts, which could also reduce the market price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of Microchip. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the requirement that a special meeting of stockholders may be called only by the holders of 50% or more of the combined voting power of all classes of our capital stock, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend the bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential

[Table of Contents](#)

acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time. The application of Section 203 also could have the effect of delaying or preventing a change in control of us.

Any of these provisions could, under certain circumstances, depress the market price of our common stock.

As a result of our acquisition activity, our goodwill and intangible assets have increased significantly in recent years and we may in the future incur impairments to goodwill or intangible assets.

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. As of December 31, 2019, we had goodwill of \$6.66 billion and net intangible assets of \$5.94 billion. In connection with the completion of our acquisition of Microsemi in May 2018, our balance of goodwill and intangible assets increased significantly. We review our indefinite-lived intangible assets, including goodwill, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets is more likely than not impaired. Factors that may be considered in assessing whether goodwill or intangible assets may be impaired include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Because we operate in highly competitive environments, projections of our future operating results and cash flows may vary significantly from our actual results. No goodwill impairment charges were recorded in fiscal 2020 or fiscal 2019. In the nine months ended December 31, 2019, we recognized \$0.5 million of intangible asset impairment charges. In fiscal 2019, we recognized \$3.1 million of intangible asset impairment charges. If in future periods, we determine that our goodwill or intangible assets are impaired, we will be required to write down these assets which would have a negative effect on our condensed consolidated financial statements.

Our foreign pension plans are unfunded, and any requirement to fund these plans in the future could negatively affect our cash position and operating capital.

In connection with our acquisitions of Microsemi and Atmel, we assumed defined benefit pension plans that cover certain of our French and German employees. Plan benefits are managed in accordance with local statutory requirements. Benefits are based on years of service and employee compensation levels. The projected benefit obligation totaled \$73.5 million at December 31, 2019. Most of these plans are unfunded in compliance with local statutory regulations, and we have no immediate intention of funding these plans. Benefits are paid when amounts become due, commencing when participants retire. We expect to pay approximately \$1.3 million in fiscal 2020 for benefits earned. Should legislative regulations require complete or partial funding of these plans in the future, it could negatively affect our cash position and operating capital.

From time to time we receive grants from governments, agencies and research organizations. If we are unable to comply with the terms of those grants, we may not be able to receive or recognize grant benefits or we may be required to repay grant benefits previously paid to us and recognize related charges, which would adversely affect our operating results and financial position.

From time to time, we receive economic incentive grants and allowances from European governments, agencies and research organizations targeted at increasing employment at specific locations. The subsidy grant agreements typically contain economic incentive, headcount, capital and research and development expenditure and other covenants that must be met to receive and retain grant benefits, and these programs can be subjected to periodic review by the relevant governments. Noncompliance by us with the conditions of the grants could result in our forfeiture of all or a portion of any future amounts to be received, as well as the repayment of all or a portion of amounts received to date.

Conversion of our debentures will dilute the ownership interest of our existing stockholders.

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

Climate change regulations and sustained adverse climate change pose regulatory and physical risks that could harm our results of operations or affect the way we conduct business.

Climate change regulations at the federal, state or local level or in international jurisdictions could require us to limit emissions, change our manufacturing processes, obtain substitute materials which may cost more or be less available, increase our investment in control technology for greenhouse gas emissions, fund offset projects or undertake other costly activities. These regulations could significantly increase our costs and restrict our manufacturing operations by virtue of requirements for new equipment. New permits may be required for our current operations, or expansions thereof. Failure to timely receive permits could result in fines, suspension of production, or cessation of operations at one or more facilities. In addition, restrictions on carbon dioxide or other greenhouse gas emissions could result in significant costs such as higher energy costs, and utility companies passing down carbon taxes, emission cap and trade programs and renewable portfolio standards. The cost of complying, or of failing to comply, with these and other climate change and emissions regulations could have an adverse effect on our operating results.

Further, any sustained adverse change in climate could have a direct adverse economic impact on us, such as water and power shortages, and higher costs of water or energy to control the temperature of our facilities. Certain of our operations are located in arid or tropical regions, such as Arizona, Thailand, and the Philippines. Some environmental experts predict that these regions may become vulnerable to storms, severe floods and droughts due to climate change. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can interrupt our business, we cannot be certain that our plans will protect us from all such disasters or events.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not repurchase any shares of our common stock in the three months ended December 31, 2019.

[Table of Contents](#)

Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation of Registrant	10-Q	000-21184	3.1	11/12/2002	
3.2	Amended and Restated Bylaws of Registrant, as amended through May 21, 2019	8-K	000-21184	3.1	5/24/2019	
10.1*	2004 Equity Incentive Plan as Amended and Restated November 12, 2019					X
10.2	Notice of Grant of Restricted Stock Units (TSR)	8-K	000-21184	10.1	1/7/2020	
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
32*	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive File because its XBRL tags are embedded within the Inline XBRL document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.					

* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROCHIP TECHNOLOGY INCORPORATED

Date: February 4, 2020

By: /s/ J. Eric Bjornholt

J. Eric Bjornholt

Senior Vice President and Chief Financial Officer

(Duly Authorized Officer, and Principal Financial and Accounting Officer)

EXHIBIT 10.1

MICROCHIP TECHNOLOGY INCORPORATED

2004 EQUITY INCENTIVE PLAN

As Amended and Restated November 12, 2019

1. Purposes of the Plan. The purposes of this 2004 Equity Incentive Plan are:

- to attract and retain the best available personnel,
- to provide additional incentive to Service Providers, and
- to promote the success of the Company's business.

Awards granted under the Plan may be Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Performance Shares, Performance Units or Deferred Stock Units, as determined by the Administrator at the time of grant.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of equity compensation plans under state and federal corporate and securities laws and the Code.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Restricted Stock, Stock Appreciation Rights, Performance Shares, Performance Units or Deferred Stock Units.

(d) "Award Agreement" means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Awarded Stock" means the Common Stock subject to an Award.

(f) "Board" means the Board of Directors of the Company.

(g) "Change of Control" means the occurrence of any of the following events, in one or a series of related transactions:

(1) any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than the Company, a subsidiary of the Company or a Company employee benefit plan, including any trustee of such plan acting as trustee, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the

Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

(2) a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(3) the sale or disposition by the Company of all or substantially all of the Company's assets; or

(4) a change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are Directors as of the date this Plan is approved by the Board, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors and whose election or nomination was not in connection with any transaction described in (1) or (2) above or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Committee" means a committee appointed by the Board in accordance with Section 4 of the Plan.

(j) "Common Stock" means the common stock of the Company.

(k) "Company" means Microchip Technology Incorporated.

(l) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services. The term Consultant shall not include Directors who are compensated by the Company only for their service as Directors.

(m) "Deferred Stock Unit" means a deferred stock unit Award granted to a Participant pursuant to Section 13.

(n) "Director" means a member of the Board.

(o) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(p) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be

an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, the Fair Market Value of a Share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in Common Stock) on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(2) If the Common Stock is quoted on the Nasdaq System (but not on the Nasdaq National Market thereof) or is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(3) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(s) "Fiscal Year" means a fiscal year of the Company.

(t) "Fiscal Quarter" means a fiscal quarter of the Company.

(u) "Non-Employee Director" means a member of the Board who is not an Employee.

(v) "Nonstatutory Stock Option" means an Option not intended to qualify as an incentive stock option under Section 422 of the Code and regulations promulgated thereunder.

(w) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Award. The Notice of Grant is part of the Option Agreement.

(x) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) "Option" means a stock option granted pursuant to the Plan.

(z) “Option Agreement” means a written or electronic agreement between the Company and a Participant evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(aa) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(bb) “Participant” means the holder of an outstanding Award granted under the Plan.

(cc) “Performance Share” means a performance share Award granted to a Participant pursuant to Section 11.

(dd) “Performance Unit” means a performance unit Award granted to a Participant pursuant to Section 12.

(ee) “Plan” means this 2004 Equity Incentive Plan, as amended and restated.

(ff) “Restricted Stock” means Shares granted pursuant to Section 10 of the Plan.

(gg) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(hh) “Section 16(b)” means Section 16(b) of the Exchange Act, as amended.

(ii) “Service Provider” means an Employee, Consultant or Non-Employee Director.

(jj) “Share” means a share of the Common Stock, as adjusted in accordance with Section 19 of the Plan.

(kk) “Stock Appreciation Right” or “SAR” means an Award granted pursuant to Section 9 of the Plan.

(ll) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 19 of the Plan, the maximum aggregate number of Shares which may be issued under the Plan is 36,300,000 Shares plus any Shares subject to any outstanding options under the Company’s 1993 or 1997 Nonstatutory Stock Option Plans that expire unexercised, up to a maximum of an additional 5,000,000 Shares.

The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Award expires or becomes unexercisable without having been exercised in full, or with respect to Restricted Stock, Performance Shares, Performance Units or Deferred Stock Units, is

forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and SARs, the forfeited or repurchased Shares) which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to SARs, the gross Shares issued (i.e., Shares actually issued pursuant to a Stock Appreciation Right, as well as the Shares that represent payment of the exercise price and any applicable tax withholdings) pursuant to a SAR will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award shall not be returned to the Plan and shall not become available for future distribution under the Plan; provided, however, that if Shares of Restricted Stock, Performance Shares, Performance Units or Deferred Stock Units are repurchased by the Company at their original purchase price or are forfeited to the Company, such Shares shall become available for future grant under the Plan. Shares used to pay the exercise price or purchase price, if applicable, of an Award shall become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than stock, such cash payment shall not result in reducing the number of Shares available for issuance under the Plan.

4. Administration of the Plan.

(a) Procedure.

(1) Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(2) Reserved.

(3) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(4) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(1) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(u) of the Plan;

(2) to select the Service Providers to whom Awards may be granted hereunder (other than the automatic grants to Non-Employee Directors provided for in Section 17 of the Plan);

(3) to determine whether and to what extent Awards or any combination thereof, are granted under the Plan;

- (4) to determine the number of shares of Common Stock or equivalent units to be covered by each Award granted under the Plan;
- (5) to approve forms of agreement for use under the Plan;
- (6) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted under the Plan. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or SARs may be exercised or other Awards vest (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;
- (7) to construe and interpret the terms of the Plan and Awards;
- (8) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;
- (9) to modify or amend each Award (subject to Sections 8(c), 9(b) and 21(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options and SARs longer than is otherwise provided for in the Plan;
- (10) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;
- (11) to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares or cash to be issued upon exercise or vesting of an Award (or distribution of a Deferred Stock Unit) that number of Shares or cash having a Fair Market Value equal to the minimum amount required to be withheld, or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, but not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of any Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares or cash withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;
- (12) to determine the terms and restrictions applicable to Awards; and
- (13) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Restricted Stock, Performance Shares, Performance Units, Stock Appreciation Rights, Deferred Stock Units and Nonstatutory Stock Options may be granted to Service Providers. Non-Employee Directors shall only receive Awards pursuant to Section 17 of the Plan.

6. Limitations.

(a) Nonstatutory Stock Option. Each Option shall be designated in the Notice of Grant as a Nonstatutory Stock Option.

(b) No Employment Rights. Neither the Plan nor any Award shall confer upon a Participant any right with respect to continuing the Participant's employment with the Company or its Subsidiaries, nor shall they interfere in any way with the Participant's right or the Company's or Subsidiary's right, as the case may be, to terminate such employment at any time, with or without cause or notice.

(c) Annual Limitations. The following limitations shall apply to grants of Options and Stock Appreciation Rights to Participants:

(1) No Participant shall be granted, in any Fiscal Year, Options and Stock Appreciation Rights to purchase more than 1,500,000 Shares; provided, however, that such limit shall be 4,000,000 Shares in the Participant's first Fiscal Year of Company service.

(2) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 19(a).

(d) Minimum Vesting Requirements.

(1) General. Except as specified in Section 6(d)(2), Awards will vest no earlier than the one (1)-year anniversary of such Award's grant date (except if accelerated pursuant to a Change of Control or a termination of the Participant's status as a Service Provider due to a Participant's death, or a Participant's Disability) (each, an "Acceleration Event").

(2) Exception. Awards may be granted to any Service Provider without regard to the minimum vesting requirements set forth in Section 6(d)(1) if the Shares subject to such Awards would not result in more than five percent (5%) of the maximum aggregate number of Shares reserved for issuance pursuant to all outstanding Awards granted under the Plan (the "5% Limit"). Any Awards that have their vesting discretionarily accelerated (except if accelerated pursuant to an Acceleration Event) are subject to the 5% Limit. For purposes of clarification, the Administrator may accelerate the vesting of any Awards pursuant to an Acceleration Event without such vesting acceleration counting toward the 5% Limit. The 5% Limit applies in the aggregate to

Awards that do not satisfy the minimum vesting requirements as set forth in Section 6(d)(1) and to the discretionary vesting acceleration of Awards specified in this Section 6(d)(2).

7. Term of Plan. The Plan is effective as of October 1, 2004 (the "Effective Date"). It shall continue in effect until May 22, 2022, unless sooner terminated under Section 21 of the Plan.

8. Stock Options.

(a) Term. The term of each Option shall be stated in the Notice of Grant; provided, however, that the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant.

(b) Option Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator and shall be no less than 100% of the Fair Market Value per share on the date of grant.

(c) No Repricing. The exercise price for an Option may not be reduced. This shall include, without limitation, a repricing of the Option as well as an Option exchange program whereby the Participant agrees to cancel an existing Option in exchange for an Option, SAR, other Award or cash.

(d) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In so doing, the Administrator may specify that an Option may not be exercised until the completion of a service period.

(e) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. Subject to Applicable Laws, such consideration may consist entirely of:

(1) cash;

(2) check;

(3) other Shares which (A) in the case of Shares acquired upon exercise of an option have been owned by the Participant for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(4) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale proceeds required to pay the exercise price;

(5) any combination of the foregoing methods of payment; or

(6) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

(f) Exercise of Option.

Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the optioned stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 19 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available for sale under the Option, by the number of Shares as to which the Option is exercised.

(g) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's misconduct, death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(h) Disability. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain

exercisable for six (6) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(i) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Option Agreement (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Option Agreement), by the personal representative of the Participant's estate, provided such representative has been designated prior to Participant's death in a form acceptable to the Administrator. If no such representative has been designated by the Participant, then such Option may be exercised by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following Participant's death. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

9. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine the number of SARs granted to any Participant.

(b) Exercise Price and Other Terms. Subject to Section 4(c) of the Plan, the Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan; provided, however, that no SAR may have a term of more than ten (10) years from the date of grant. The per share exercise price for the Shares or cash to be issued pursuant to exercise of an SAR shall be determined by the Administrator and shall be no less than 100% of the Fair Market Value per share on the date of grant. The exercise price may not be reduced. This shall include, without limitation, a repricing of the SAR as well as an SAR exchange program whereby the Participant agrees to cancel an existing SAR in exchange for an Option, SAR, other Award or cash.

(c) Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (1) the difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (2) the number of Shares with respect to which the SAR is exercised.

With respect to SARs settled in Shares, until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the SAR, notwithstanding the exercise of the SAR.

(d) Payment Upon Exercise of SAR. At the discretion of the Administrator, payment for an SAR may be in cash, Shares or a combination thereof.

(e) SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

(f) Expiration of SARs. An SAR granted under the Plan shall expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement.

(g) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability termination, the Participant may exercise his or her SAR within such period of time as is specified in the SAR Agreement to the extent that the SAR is vested on the date of termination (but in no event later than the expiration of the term of such SAR as set forth in the SAR Agreement). In the absence of a specified time in the SAR Agreement, the SAR shall remain exercisable for three (3) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire SAR, the Shares covered by the unvested portion of the SAR shall revert to the Plan. If, after termination, the Participant does not exercise his or her SAR within the time specified by the Administrator, the SAR shall terminate, and the Shares covered by such SAR shall revert to the Plan.

(h) Disability. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her SAR within such period of time as is specified in the SAR Agreement to the extent the SAR is vested on the date of termination (but in no event later than the expiration of the term of such SAR as set forth in the SAR Agreement). In the absence of a specified time in the SAR Agreement, the SAR shall remain exercisable for six (6) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire SAR, the Shares covered by the unvested portion of the SAR shall revert to the Plan. If, after termination, the Participant does not exercise his or her SAR within the time specified herein, the SAR shall terminate, and the Shares covered by such SAR shall revert to the Plan.

(i) Death of Participant. If a Participant dies while a Service Provider, the SAR may be exercised following the Participant's death within such period of time as is specified in the SAR Agreement (but in no event may the SAR be exercised later than the expiration of the term of such SAR as set forth in the SAR Agreement), by the personal representative of the Participant's estate, provided such representative has been designated prior to Participant's death in a form acceptable to the Administrator. If no such representative has been designated by the Participant, then such SAR may be exercised by the person(s) to whom the SAR is transferred pursuant to the

Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the SAR Agreement, the SAR shall remain exercisable for twelve (12) months following Participant's death. If the SAR is not so exercised within the time specified herein, the SAR shall terminate, and the Shares covered by such SAR shall revert to the Plan.

10. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and conditions of the Plan, Restricted Stock may be granted to Participants at any time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Stock award granted to any Participant (provided that during any Fiscal Year, no Participant shall be granted more than 300,000 Shares of Restricted Stock); provided, however, that such limit shall be 750,000 Shares in the Participant's first Fiscal Year of Company service, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component, upon which is conditioned the grant or vesting of Restricted Stock.

(b) Restricted Stock Units. Restricted Stock may be granted in the form of Restricted Stock or units to acquire Shares. Each such unit shall be the equivalent of one Share for purposes of determining the number of Shares subject to an Award. With respect to the units to acquire Shares, until the Shares are issued, no right to vote or receive dividends or any other rights as a stockholder shall exist.

(c) Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Restricted Stock granted under the Plan. Restricted Stock grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the stock is awarded. The Administrator may require the recipient to sign a Restricted Stock Award agreement as a condition of the award. Any certificates representing the Shares of stock awarded shall bear such legends as shall be determined by the Administrator.

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

(e) Dividends and Other Distributions. Until the restrictions set forth in the Restricted Stock Award agreement have lapsed, Service Providers holding Shares of Restricted Stock will not be entitled to receive dividends and other distributions paid with respect to such Shares. However, to the extent the restrictions in the Restricted Stock Award have lapsed, Service Providers holding Shares of Restricted Stock will be entitled to receive dividends, even if there are other restrictions on the Shares of Restricted Stock (e.g., a lock up period due to a public offering or a restriction due to possession of material nonpublic information).

11. Performance Shares.

(a) Grant of Performance Shares. Subject to the terms and conditions of the Plan, Performance Shares may be granted to Participants at any time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Performance Share award granted to any Participant (provided that during any Fiscal Year, no Participant shall be granted more than 300,000 units of Performance Shares); provided, however, that such limit shall be 750,000 Shares in the Participant's first Fiscal Year of Company service, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component, upon which is conditioned the grant or vesting of Performance Shares. Performance Shares shall be granted in the form of units to acquire Shares. Each such unit shall be the equivalent of one Share for purposes of determining the number of Shares subject to an Award. Until the Shares are issued, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the units to acquire Shares.

(b) Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Performance Shares granted under the Plan. Performance Share grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the stock is awarded, which may include such performance-based milestones as are determined appropriate by the Administrator. The Administrator may require the recipient to sign a Performance Shares agreement as a condition of the award. Any certificates representing the Shares of stock awarded shall bear such legends as shall be determined by the Administrator.

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

12. Performance Units.

(a) Grant of Performance Units. Performance Units are similar to Performance Shares, except that they shall be settled in a cash equivalent to the Fair Market Value of the underlying Shares, determined as of the vesting date. Subject to the terms and conditions of the Plan, Performance Units may be granted to Participants at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine the conditions that must be satisfied, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component, upon which is conditioned the grant or vesting of Performance Units. Performance Units shall be granted in the form of units to acquire Shares. Each such unit shall be the cash equivalent of one Share of Common Stock. No right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Performance Units or the cash payable thereunder.

(b) Number of Performance Units. The Administrator will have complete discretion in determining the number of Performance Units granted to any Participant, provided that

during any Fiscal Year, no Participant shall receive Performance Units having an initial value greater than \$1,500,000, provided, however, that such limit shall be \$4,000,000 in the Participant's first Fiscal Year of Company service.

(c) Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Performance Units granted under the Plan. Performance Unit grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the stock is awarded, which may include such performance-based milestones as are determined appropriate by the Administrator. The Administrator may require the recipient to sign a Performance Unit agreement as a condition of the award. Any certificates representing the Shares awarded shall bear such legends as shall be determined by the Administrator.

(d) Performance Unit Award Agreement. Each Performance Unit grant shall be evidenced by an agreement that shall specify such terms and conditions as the Administrator, in its sole discretion, shall determine.

13. Deferred Stock Units.

(a) Description. Deferred Stock Units shall consist of a Restricted Stock, Performance Share or Performance Unit Award that the Administrator, in its sole discretion permits to be paid out in installments or on a deferred basis, in accordance with rules and procedures established by the Administrator. Deferred Stock Units shall remain subject to the claims of the Company's general creditors until distributed to the Participant.

(b) Annual Limits. Deferred Stock Units shall be subject to the annual limits applicable to the underlying Restricted Stock, Performance Share or Performance Unit Award.

14. Death of Participant. In the event that a Participant dies while a Service Provider, then 100% of his or her Awards shall immediately vest.

15. Leaves of Absence. Unless the Administrator provides otherwise or as otherwise required by Applicable Laws, vesting of Awards granted hereunder shall cease commencing on the first day of any unpaid leave of absence and shall only recommence upon return to active service.

16. Misconduct. Should (i) the Participant's service be terminated for misconduct (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement), or (ii) the Participant makes any unauthorized use or disclosure of confidential information or trade secrets of the Company or any Parent or Subsidiary, then in any such event all outstanding Awards held by the Participant under the Plan shall terminate immediately and cease to be outstanding, including as to both vested and unvested Awards.

17. Non-Employee Director Options.

(a) Initial Grants. Each Non-Employee Director who first becomes a Non-Employee Director on or after May 5, 2010 (excluding any Non-Employee Director who previously

served on the Board), shall be automatically granted that number of Restricted Stock Units equal to \$160,000 divided by the Fair Market Value, rounded down to the nearest whole Share (the "Initial RSU Grant"), as of the date that the individual first is appointed or elected as a Non-Employee Director. The Initial RSU Grant will vest in equal 25% annual installments on each of the four anniversaries of the tenth business day of the second month of the Fiscal Quarter in which the grant is made. All vesting of the Initial RSU Grant is contingent upon the Non-Employee Director maintaining continued status as a Non-Employee Director through the applicable vesting date.

(b) Annual Grants. On the date of the Company's annual stockholders' meeting, each Non-Employee Director who has served as a Non-Employee Director for at least three months on that date shall be automatically granted that number of Restricted Stock Units equal to \$84,000 (or \$123,000 for grants occurring after the May 21, 2019) divided by the Fair Market Value, rounded down to the nearest whole Share (the "Annual RSU Grant"), provided that such Non-Employee Director has been elected by the stockholders to serve as a member of the Board at that annual stockholders' meeting. The Annual RSU Grant will vest in equal 50% annual installments on each of the two anniversaries of the tenth day of the second month of the Fiscal Quarter in which the grant is made. All vesting of the Annual RSU Grant is contingent upon the Non-Employee Director maintaining continued status as a Non-Employee Director through the applicable vesting date.

18. Non-Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the recipient, only by the recipient. In no event may an Award be transferred in exchange for consideration. If the Administrator makes an Award transferable, such Award shall contain such additional terms and conditions as the Administrator deems appropriate.

19. Adjustments Upon Changes in Capitalization, Dissolution or Liquidation or Change of Control.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Award, the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per share of Common Stock covered by each such outstanding Award and the Fiscal Year annual share issuance limits under Sections 6(c), 10(a) and 11(a) shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that any such change in capitalization shall not affect the number of shares awarded under the automatic grants to Non-Employee Directors described in Sections 17(a) and (b), and provided that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities

convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Participant to have the right to exercise his or her Option or SAR until ten (10) days prior to such transaction as to all of the Awarded Stock covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any Award shall lapse 100%, and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised (with respect to Options and SARs) or vested (with respect to other Awards), an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change of Control.

(1) Stock Options and SARs. In the event of a Change of Control, each outstanding Option and SAR shall be assumed or an equivalent option or SAR substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or SAR, the Participant shall fully vest in and have the right to exercise the Option or SAR as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or SAR becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change of Control, the Administrator shall notify the Participant in writing or electronically that the Option or SAR shall be fully vested and exercisable for a period of thirty (30) days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or SAR shall be considered assumed if, following the Change of Control, the option or stock appreciation right confers the right to purchase or receive, for each Share of Awarded Stock subject to the Option or SAR immediately prior to the Change of Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change of Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each Share of Awarded Stock subject to the Option or SAR, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change of Control.

(2) Restricted Stock, Performance Shares, Performance Units and Deferred Stock Units. In the event of a Change of Control, each outstanding Restricted Stock, Performance Share, Performance Unit and Deferred Stock Unit award shall be assumed or an equivalent Restricted Stock, Performance Share, Performance Unit and Deferred Stock Unit award

substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Restricted Stock, Performance Share, Performance Unit or Deferred Stock Unit award, the Participant shall fully vest in the Restricted Stock, Performance Share, Performance Unit or Deferred Stock Unit including as to Shares (or with respect to Performance Units, the cash equivalent thereof) which would not otherwise be vested. For the purposes of this paragraph, a Restricted Stock, Performance Share, Performance Unit and Deferred Stock Unit award shall be considered assumed if, following the Change of Control, the award confers the right to purchase or receive, for each Share (or with respect to Performance Units, the cash equivalent thereof) subject to the Award immediately prior to the Change of Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change of Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received, for each Share and each unit/right to acquire a Share subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change of Control.

20. Date of Grant. The date of grant of an Award shall be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Participant within a reasonable time after the date of such grant.

21. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Section 422 of the Code (or any successor rule or statute or other applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such stockholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company.

22. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Award unless the exercise of the Award or the issuance and delivery of such Shares (or with respect to Performance Units, the cash equivalent thereof) shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

23. Liability of Company.

(a) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

(b) Grants Exceeding Allotted Shares. If the Awarded Stock covered by an Award exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional stockholder approval, such Award shall be void with respect to such excess Awarded Stock, unless stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 21(b) of the Plan.

24. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

CERTIFICATION

I, Steve Sanghi, certify that:

1. I have reviewed this Form 10-Q of Microchip Technology Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2020

/s/ Steve Sanghi

Steve Sanghi

Chief Executive Officer and Chairman of the Board

CERTIFICATION

I, J. Eric Bjornholt, certify that:

1. I have reviewed this Form 10-Q of Microchip Technology Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2020

/s/ J. Eric Bjornholt

J. Eric Bjornholt

Senior Vice President and Chief Financial Officer

