

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

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended March 31, 2021

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**  
(Address of Principal Executive Offices, Including Zip Code)

**(480) 792-7200**  
(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.001 Par Value Per Share	MCHP	NASDAQ Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates as of September 30, 2020 based upon the closing price of the common stock as reported by the NASDAQ Global Market on such date was approximately \$26.2 billion.

Number of shares of Common Stock, \$0.001 par value, outstanding as of May 7, 2021: 273,531,409 shares

Documents Incorporated by Reference

Document  
Annual Report on Form 10-K for the fiscal year ended March 31, 2020  
Proxy Statement for the 2021 Annual Meeting of Stockholders

Part of Form 10-K  
II  
III

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

FORM 10-K

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**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**

**Defined Terms<sup>(1)</sup>**

Term	Definition
3.922% 2021 Notes	2021 Senior Secured Notes, maturing June 1, 2021
4.333% 2023 Notes	2023 Senior Secured Notes, maturing June 1, 2023
2.670% 2023 Notes	2023 Senior Secured Notes, maturing September 1, 2023
0.972% 2024 Notes	2024 Senior Secured Notes, maturing February 15, 2024
4.250% 2025 Notes	2025 Senior Unsecured Notes, maturing September 1, 2025
2015 Senior Convertible Debt	2015 Senior Convertible Debt, maturing February 15, 2025
2017 Senior Convertible Debt	2017 Senior Convertible Debt, maturing February 15, 2027
2020 Senior Convertible Debt	2020 Senior Convertible Debt, maturing November 15, 2024
2017 Junior Convertible Debt	2017 Junior Convertible Debt, maturing February 15, 2037
ASU	Accounting Standards Update
Bridge Loan Facility	364-Day Senior Secured bridge credit agreement which provides for a term loan facility
CEMs	Client engagement managers
Convertible Debt	2015 Senior Convertible Debt, 2017 Senior Convertible Debt, 2020 Senior Convertible Debt, and 2017 Junior Convertible Debt
Credit Agreement	Credit agreement, dated as of May 29, 2018, as subsequently amended, among the Company, as borrower, the lenders from time to time party thereto, J.P.Morgan Chase Bank, N.A., as administrative agent, providing for the Revolving Credit Facility and the Term Loan Facility
EAR	Export Administration Regulation
EEPROM	Electrically erasable programmable read only memory
EERAM	Electrically erasable random access memory
ESEs	Embedded solutions engineers
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FPGA	Field-programmable gate array
LIBOR	London Interbank Offered Rate
OEMs	Original equipment manufacturers
R&D	Research and development
Revolving Credit Facility	\$3.57 billion revolving credit facility created pursuant to the Credit Agreement
RF	Radio frequency
ROU	Right-of-use
RSUs	Restricted stock units
SEC	U.S. Securities and Exchange Commission
Senior Credit Facilities	Revolving Credit Facility and Term Loan Facility
Senior Indebtedness	Revolving Credit Facility, Term Loan Facility, Bridge Loan Facility, 3.922% 2021 Notes, 4.333% 2023 Notes, 2.670% 2023 Notes, 0.972% 2024 Notes, and 4.250% 2025 Notes
Senior Notes	3.922% 2021 Notes, 4.333% 2023 Notes, 2.670% 2023 Notes, 0.972% 2024 Notes, and 4.250% 2025 Notes
SRAM	Static random access memory
SARs	Stock appreciation rights
TCJA	Tax Cuts and Jobs Act of 2017
Term Loan Facility	\$3.0 billion term loan facility created pursuant to the Credit Agreement
U.S. GAAP	U.S. Generally Accepted Accounting Principles

<sup>(1)</sup> Certain terms used within this Form 10-K are defined in the above table.

## PART I

*This Form 10-K contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy and future financial performance and those statements identified under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Note Regarding Forward-looking Statements." Our actual results could differ materially from the results described in these forward-looking statements as a result of certain factors including those set forth under "Item 1A. Risk Factors," beginning below at page 12, and elsewhere in this Form 10-K. Although we believe that the matters 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. In this Form 10-K, "we," "us," "our," and "Microchip" each refers to Microchip Technology Incorporated and its subsidiaries.*

### Item 1. Business

We develop, manufacture and sell smart, connected and secure embedded control solutions used by our customers for a wide variety of applications. With over 30 years of technology leadership, our broad product portfolio is a Total System Solution (TSS) for our customers that provides a large portion of the silicon requirements in their applications. TSS is a combination of hardware, software and services which help our customers increase their revenue, reduce their costs and manage their risks compared to other solutions. Our synergistic product portfolio empowers disruptive growth trends, including 5G, artificial intelligence and machine learning, Internet of Things (IoT), advanced driver assist systems (ADAS) and autonomous driving, and electric vehicles, in key end markets such as automotive, aerospace and defense, communications, consumer, data centers and computing, and industrial.

### Impact of COVID-19 on Our Business

In the first half of fiscal 2021, the COVID-19 pandemic resulted in a global disruption in economic activity by adversely affecting production, creating supply chain and market disruption, and adversely impacting businesses and individuals. In the second half of fiscal 2021, business conditions were unexpectedly strong as businesses and individuals adapted to the effects of the pandemic. Supply chains, however, were stressed as they were not expecting the level of economic strength that occurred. The impact of the pandemic on individuals and in certain locations in which we operate remains uncertain and will depend on many factors, such as the effectiveness of the pandemic containment efforts including the use and effectiveness of vaccines. We regularly monitor new information regarding the severity of COVID-19 and the ability to contain, treat, or prevent it.

In response to the early indications of the COVID-19 pandemic, we took proactive measures to safeguard the health of our employees, contractors, customers, suppliers, visitors to our facilities, other business partners, and our communities. While our global manufacturing sites are fully operational, we strategically implemented plans intended to provide more assurance of business continuity in the event severe outbreaks or government requirements were to impact our operations. We monitor governmental policies and CDC recommendations and take appropriate actions which are designed to prevent and control the spread of COVID-19.

### Industry Background

Competitive pressures require OEMs of a wide variety of products to expand product functionality and provide differentiation while maintaining or reducing cost. To address these requirements, manufacturers often use integrated circuit-based embedded control systems that enable them to:

- differentiate their products
- replace less efficient electromechanical control devices
- reduce the number of components in their system
- add product functionality
- reduce the system level energy consumption
- make systems safer to operate
- add security to their products
- decrease time to market for their products
- significantly reduce product cost

Embedded control systems have been incorporated into thousands of products and subassemblies in a wide variety of applications and markets worldwide, including:

- actuators
- applications requiring touch buttons, touch screens and graphical user interfaces
- automotive access control
- automotive comfort, safety, information and entertainment applications
- avionics
- communication infrastructure systems
- consumer electronics
- defense and military hardware
- electric vehicles
- handheld tools
- home and building automation
- industrial automation
- large and small home appliances
- medical devices
- motor controls
- portable computers and accessories
- power supplies
- residential and commercial security systems
- robotics
- routers and video surveillance systems
- satellites
- smart home and IoT edge devices
- smart meters and energy monitoring
- storage and server systems
- touch control
- wireless communication

Embedded control systems typically incorporate a microcontroller as the principal active, and sometimes sole, component. A microcontroller is a self-contained computer-on-a-chip consisting of a central processing unit, often with on-board non-volatile program memory for program storage, random access memory for data storage and various analog and digital input/output peripheral capabilities. In addition to the microcontroller, a complete embedded control system often incorporates application-specific software, various analog, mixed-signal, timing, connectivity, security and non-volatile memory components such as EEPROMs and Flash memory.

The increasing demand for embedded control systems has made the market for microcontrollers a significant segment of the semiconductor market at \$17.5 billion in calendar year 2020. Microcontrollers are primarily available in 8-bit through 32-bit architectures. 8-bit microcontrollers remain very cost-effective and easy to use for a wide range of high-volume embedded control applications and, as a result, continue to represent a significant portion of the overall microcontroller market. 16-bit and 32-bit microcontrollers provide higher performance and functionality, and are generally found in more complex embedded control applications. FPGAs are programmable integrated circuits that are used to implement complex logic functions and can be re-programmed at any time, allowing for multiple implementations and revisions during or after the end customer system is manufactured. Some versions of FPGAs also include a microcontroller or microprocessor core to provide additional system on chip functionality for compute intensive tasks. The analog and mixed-signal segment of the semiconductor market was \$54.0 billion in calendar year 2020, and this market is fragmented into a large number of sub segments.

## **Our Products**

Our strategic focus is on providing 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.

### *Microcontrollers*

We offer a broad family of proprietary general purpose microcontroller products marketed under multiple brand names. We believe that our microcontroller product families provide leading function and performance characteristics in the worldwide microcontroller market. We target the 8-bit, 16-bit, and 32-bit microcontroller and 32-bit embedded microprocessor markets. We have shipped more than 29.5 billion microcontrollers to customers worldwide since 1990. We also offer

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specialized microcontrollers for automotive, industrial, computing, communications, lighting, power supplies, motor control, human machine interface, security, wired connectivity and wireless connectivity applications.

We leverage our circuit design, process technologies, development tools, applications knowledge, and manufacturing experiences to enable our customers to implement various embedded control functions in their end systems with our microcontrollers.

### *Analog*

Our analog product line consists of several families including power management, linear, mixed-signal, high voltage, thermal management, discrete diodes and MOSFETS, RF, drivers, safety, security, timing, USB, ethernet, wireless and other interface products.

We market and sell our analog product line into our microcontroller, microprocessor and FPGA customer base, and to customers who use microcontrollers and FPGA products from other suppliers and to customers who use other products that may not fit our traditional microcontroller, FPGA and memory products customer base.

### *Other*

Our other product line includes FPGA products, royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, fees for engineering services, memory products, timing systems, manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, and products for aerospace applications.

Our FPGA products were primarily acquired as a part of our acquisition of Microsemi Corporation (Microsemi) in May 2018. Our portfolio of non-volatile FPGAs are recognized for their low power, high security and extended reliability. We market and sell our FPGA products and related solutions into a broad range of applications within the industrial, automotive, defense, aviation, space and communications markets.

Our technology licensing business generates license fees and royalties associated with technology licenses for the use of our SuperFlash® embedded flash and Smartbits® one time programmable NVM technologies. We also generate fees for engineering services related to these technologies. We license our NVM technologies to foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of their advanced microcontroller products, gate array, RF, analog and neuromorphic compute products that require embedded non-volatile memory.

Our memory products consist of EEPROMs, Serial Flash memories, Parallel Flash memories, Serial SRAM memories and EERAM. Serial EEPROMs, Serial Flash memories, Serial SRAMs and EERAM have a very low I/O pin requirement, permitting production of very small footprint devices. We sell our memory products primarily into the embedded control market, complementing our microcontroller offerings.

### *Microcontroller Development Tools*

We offer a comprehensive set of low-cost and easy-to-learn application development tools. These tools enable system designers to quickly and easily program our microcontroller and microprocessor products for specific applications and, we believe, they are an important factor for facilitating design wins.

Our family of development tools for our microcontroller and microprocessor products range from entry-level systems, which include an assembler or a compiler and programmer or in-circuit debugging hardware, to fully configured systems that provide in-circuit emulation capability. We also offer a complete suite of compilers, software code configurators and simulators. Customers moving from entry-level designs to those requiring real-time emulation are able to preserve their investment in learning and tools as they migrate to future microcontroller devices in our portfolio.

Many independent companies also develop and market application development tools that support our microcontroller and microprocessor product architectures, including an extensive amount of third-party tool suppliers whose products support our microcontroller architectures.

We believe that familiarity with and adoption of development tools from Microchip as well as third-party development tool partners by an increasing number of product designers will be an important factor in the future selection of our embedded

control products. These development tools allow design engineers to develop thousands of application-specific products from our standard microcontrollers.

## **Manufacturing**

Our manufacturing operations include wafer fabrication, wafer probe, 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 our assembly and test operations, and by employing statistical techniques (statistical process control, designed experiments and wafer level monitoring), 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 assembly and testing profit margin. We do outsource a significant portion of our manufacturing requirements to third parties and the amount of our outsourced manufacturing has increased in recent years due to our acquisitions of Microsemi and other companies that outsource all or substantial portions of their manufacturing. We comply with several quality systems, including: ISO9001 (2015 version), IATF16949 (2016 version), AS9100 (2016 version), and TL9000.

Refer to "Item 2. Properties" for further information regarding the location and principal operations of our manufacturing facilities.

### *Wafer Fabrication*

Fab 2 currently produces 8-inch wafers and supports various manufacturing process technologies, but predominantly utilizes our 0.25 microns to 1.0 microns processes. During fiscal 2021, we increased Fab 2's capacity to support more advanced technologies by making process improvements, upgrading existing equipment, and adding equipment.

Fab 4 currently produces 8-inch wafers using predominantly 0.13 microns to 0.5 microns manufacturing processes. During fiscal 2021, we increased Fab 4's capacity to support more advanced technologies by making process improvements, upgrading existing equipment, and adding equipment. A significant amount of additional clean room capacity in Fab 4 can be brought on line in the future to support incremental wafer fabrication capacity needs.

During fiscal 2020, we announced our intention to re-purpose Fab 5 to manufacture discrete and specialty products in addition to a lower volume of a diversified set of standard products. In connection with these efforts, we reduced the clean room footprint and transferred certain higher volume products from Fab 5 to our 8-inch wafer fabrication facilities in Arizona and Oregon. These restructuring efforts were substantially completed as of March 31, 2021.

We believe the combined capacity of Fab 2, Fab 4, and Fab 5 will allow us to respond to future demand with incremental capital expenditures.

As a result of our acquisition of Microsemi, we acquired several smaller wafer fabrication facilities, which utilize older technologies that are appropriate for the discrete products they manufacture. We plan to operate these fabrication facilities with modest investment to keep them operational with the exception of the facility in Santa Clara, California, which we plan to close by December 2021.

We continue to transition products to more advanced process technologies to reduce future manufacturing costs. We believe that our ability to successfully transition to more advanced process technologies is important for us to remain competitive.

We augment our internal manufacturing capabilities by outsourcing a significant portion of our wafer production requirements to third-party wafer foundries. As a result of our acquisitions in recent years, we have become more reliant on outside wafer foundries for our wafer fabrication requirements. In fiscal 2021, approximately 61% of our sales came from products that were produced at outside wafer foundries.

### *Assembly and Test*

We perform product assembly and test at various facilities located around the world. During fiscal 2021, we increased capacity at our Thailand and Philippines facilities to support more technologies by making process improvements, upgrading existing equipment, and adding equipment. During fiscal 2021, approximately 53% of our assembly requirements were being performed in our internal facilities and approximately 57% of our test requirements were performed in internal facilities. We



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use third-party assembly and test contractors for the balance of our assembly and test requirements. Over time, we intend to continue to migrate a portion of the outsourced assembly and test activities to our internal facilities.

### *General Matters Impacting Our Manufacturing Operations*

Due to the high fixed costs inherent in semiconductor manufacturing, consistently high manufacturing yields have significant positive effects on our gross profit and overall operating results. Our continuous focus on manufacturing productivity has allowed us to maintain excellent manufacturing yields at our facilities. Our manufacturing yields are primarily driven by a comprehensive implementation of statistical process control, extensive employee training and effective use of our manufacturing facilities and equipment. Maintenance of manufacturing productivity and yields are important factors in the achievement of our operating results. The manufacture of integrated circuits, particularly non-volatile, erasable complementary metal-oxide semiconductor (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 and the performance of our manufacturing personnel and equipment. 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.

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. In order to respond to such requirements, we have historically maintained a significant work-in-process and finished goods inventory. Refer to Note 5 for a summary of our long-lived assets, consisting of property, plant and equipment and right-of-use assets, by geography.

We have many suppliers of raw materials and subcontractors which provide our various materials and service needs. We generally seek to have multiple sources of supply for our raw materials and services, but, in some cases, we may rely on a single or limited number of suppliers.

## **Sales and Distribution**

### *General*

We market and sell our products worldwide primarily through a network of direct sales personnel and distributors.

Our direct sales force focuses on a wide variety of strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and technical support centers in major metropolitan areas in all three geographic markets. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our CEMs, ESEs, and sales management have technical degrees or backgrounds and have been previously employed in high technology environments. We believe that the technical and business 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 customers and to conduct periodic training sessions for the balance of our sales team. ESEs also frequently conduct technical seminars and workshops in major cities around the world or through online webcasts.

Our licensing division has dedicated sales, technology, design, product, test and reliability personnel that support the requirements of our licensees.

In the fourth quarter of fiscal 2021, we launched our Preferred Supply Program, which provides our customers with prioritized capacity beginning 6 months after their order of 12 months of continuous, non-cancellable and non-reschedulable backlog.

For information regarding our revenue, results of operations, and total assets for each of our last three fiscal years, refer to our financial statements included in this Form 10-K.

### *Distribution*

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 us for our products and brand name and use distributors as an effective supply channel.

In each of fiscal 2021 and fiscal 2020, we derived 50% of our net sales through distributors and 50% of our net sales from customers serviced directly by us. With the exception of Arrow Electronics, our largest distributor, which accounted for 10%

of our net sales in fiscal 2020, no other distributor or end customer accounted for more than 10% of our net sales in fiscal 2021 or fiscal 2020.

With the exception of orders placed under our Preferred Supply Program, we do not have long-term purchase commitments from our distributors and we, or our distributors, may each terminate our relationship with little or no advanced 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.

### **Competition**

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, some of which have greater market recognition and greater financial, technical, marketing, distribution and other resources than we have with which to pursue engineering, manufacturing, marketing and distribution of their products. We also compete with a number of companies that we believe have copied, cloned, pirated or reverse engineered our proprietary product lines in such countries as China and Taiwan. We are continuing to take actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis.

We currently compete principally on the basis of the technical innovation and performance of our embedded control products, including the following product characteristics:

- performance
- analog, digital and mixed signal functionality and level of functional integration
- field programmability
- memory density
- low power consumption
- extended voltage ranges
- reliability
- security and functional safety
- packaging alternatives
- comprehensive suite of development tools

We believe that other important competitive factors in the embedded control market include:

- ease of use
- functionality of application development systems
- hardware, software and tool compatibility within product families to increase migration flexibility
- dependable delivery, quality and availability
- technical and innovative service and support
- time to market
- price

We believe that we compete favorably with other companies on all of these factors, but we may be unable to compete successfully in the future, which could harm our business.

### **Patents, Licenses and Trademarks**

We maintain a portfolio of U.S. and foreign patents, expiring on various dates from 2021 through 2039. We also have numerous additional U.S. and foreign patent applications pending. We do not expect that the expiration of any particular patent will have a material impact on our business. While our intention is to continue to patent our technology and manufacturing processes, we believe that our continued success depends primarily on the technological skills and innovative capabilities of our personnel and our ability to rapidly commercialize new and enhanced products. As with any operating company, the scope and strength of our intellectual property assets, including our pending and existing patents, trademarks, copyrights, and other intellectual property rights may be insufficient to provide meaningful protection or commercial advantage. Moreover, pursuing violations of intellectual property rights on a worldwide basis is a complex challenge involving multinational patent, trademark, copyright and trade secret laws. Further, the laws of particular foreign countries often fail to protect our intellectual property rights to the same extent as the laws of the U.S.

We have also entered into certain in-bound and outbound intellectual property licenses and cross-licenses with other companies and those licenses relate to semiconductor products and manufacturing processes. As is typical in the semiconductor industry, we and our customers from time to time receive, and may continue to receive, demand letters from third parties

asserting infringement of patent and other intellectual property rights. We diligently investigate all such notices and respond as we believe appropriate. In most cases we believe that we can obtain necessary licenses on commercially reasonable terms, however, we cannot be certain that this would be the case, or that litigation or damages for any past infringement could be avoided. Licensees of our technology may become unable to pay, or dispute their obligations to pay us royalties or fees. Litigation, arbitration or other proceedings, which could result in substantial costs and require significant attention from management, may be necessary to enforce our intellectual property rights, or to defend against claimed infringement of the rights of others. The failure to obtain necessary licenses, the necessity of engaging in defensive legal proceedings, or any negative results of these proceedings could harm our business.

## **Environmental Regulation**

We must comply with many different federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of certain chemicals and gases used in our manufacturing processes. Our facilities have been designed to comply with these regulations and we believe that our activities are conducted in material compliance with such regulations. Any changes in such regulations or in their enforcement could require us to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. Any failure by us to adequately control the storage, use, discharge and disposal of regulated substances could result in significant future liabilities.

Increasing public attention has been focused on the environmental impact of electronic manufacturing operations. While we have not experienced any materially adverse effects on our operations from recently adopted environmental regulations, our business and results of operations could suffer if for any reason we fail to control the storage or use of, or to adequately restrict the discharge or disposal of, hazardous substances under present or future environmental regulations.

## **Human Capital Resources**

### *Our Employees*

We invest in our highly-skilled global workforce of approximately 19,500 people in accordance with our Guiding Value: employees are our greatest strength. We believe that our culture, values, and organizational development and training programs provide an inclusive work environment where our employees are empowered and engaged to deliver the best embedded control solutions to our customers.

### *Culture and Core Values*

Before Microchip went public in 1993, Microchip created a cultural framework to unite its employees through shared workplace values, and to guide employees' strategies, decisions, actions and job performance. Microchip's culture is centered on a values-based, highly-empowered, continuous-improvement oriented approach. This corporate culture strengthens our business, and enables us to fulfill our purpose. Our focus on communication provides transparency among leadership, promotes trust among employees, and is a critical part of Microchip's culture. Our culture is important to our employees, and is a key reason why we have had a strong worldwide retention rate for many years, and have a significant number of employees with long tenure with Microchip that have grown from individual contributors in the early stages of their careers into senior leadership positions today. This long tenure among our employee-base results in deep relationships and trust being built among colleagues, retention of our knowledge base, and continuation of our culture. More information on our Guiding Values can be found at [www.microchip.com/en-us/about/investors/investor-information/mission-statement](http://www.microchip.com/en-us/about/investors/investor-information/mission-statement).

We promote employee adoption of our culture through a number of methods including training, mentorship, values-based performance reviews, employee engagement surveys, company-wide quarterly meetings, town hall meetings with the President and Chief Executive Officer and other executive team members, and an open-door policy of communication where employees are encouraged to interact directly with management.

### *Training and Development*

Microchip's culture focuses on continuous improvement. We provide training on our culture, management skills, communication, technical skills, and personal improvement. Microchip also has a leadership program that provides for the growth and development of its future leaders. This program helps us develop leaders that serve as role models of Microchip culture, and support empowerment and open communication.

### Compensation Programs

We strive to provide competitive pay and benefits, that help meet the varying needs of our employees. Our total compensation package includes base pay, broad-based stock grants and bonuses, healthcare and retirement plans, employee stock purchase plans, and paid time off and family leave.

### Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers as of April 30, 2021:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Ganesh Moorthy	61	President, Chief Executive Officer, and Director
Steve Sanghi	65	Executive Chair
J. Eric Bjornholt	50	Senior Vice President and Chief Financial Officer
Stephen V. Drehabl	59	Senior Vice President, MCU8 and MCU16 Business Units
Mitchell R. Little	69	Senior Vice President, Worldwide Client Engagement
Richard J. Simoncic	57	Senior Vice President, Analog Power and Interface Business Units

*Mr. Moorthy* was appointed as Chief Executive Officer in March 2021 and to the Board of Directors in January 2021. Mr. Moorthy has served as President since February 2016 and Chief Operating Officer since June 2009. He also served as Executive Vice President from October 2006 to August 2012 and as a Vice President in various roles since he joined Microchip in 2001. Prior to this time, he served in various executive capacities with other semiconductor companies. Mr. Moorthy holds an M.B.A. in Marketing from National University, a B.S. degree in Electrical Engineering from the University of Washington and a B.S. degree in Physics from the University of Mumbai, India. Mr. Moorthy was elected to the Board of Directors of Rogers Corporation in July 2013 and serves on the Audit Committee of the Board and as the Nominating and Governance Committee Chairperson.

*Mr. Sanghi* transitioned to Executive Chair in March 2021. He served as Chief Executive Officer from October 1991 to March 2021 and as Chairman of the Board since October 1993. He served as President from August 1990 to February 2016 and has served as a director since August 1990. Mr. Sanghi holds an M.S. degree in Electrical and Computer Engineering from the University of Massachusetts and a B.S. degree in Electronics and Communication from Punjab University. Mr. Sanghi served on the Board of Directors of Myomo, Inc., a publicly traded commercial stage medical robotics company that offers expanded mobility for those suffering from neurological disorders and upper-limb paralysis, from November 2016 through October 2019. Mr. Sanghi served on the board of Mellanox Technologies Ltd., a publicly traded supplier of end-to-end Ethernet and InfiniBand intelligent interconnect solutions and services for servers, storage, and hyper-converged infrastructure, from February 2018 through April 2020. Mr. Sanghi was elected to the Board of Directors of Impinj, Inc. in March 2021.

*Mr. Bjornholt* was promoted to Senior Vice President in 2019 and has served as Vice President of Finance since 2008 and as Chief Financial Officer since January 2009. He has served in various financial management capacities since he joined Microchip in 1995. Mr. Bjornholt holds a Master's degree in Taxation from Arizona State University and a B.S. degree in Accounting from the University of Arizona.

*Mr. Drehabl* was promoted to Senior Vice President in 2019 and has served as Vice President of the MCU8 business unit and various other divisions and business units since July 2001. He has been employed by Microchip since August 1989 and has served as a Vice President in various roles since February 1997. Mr. Drehabl holds a Bachelor of Technology degree from the University of Dayton.

*Mr. Little* was promoted to Senior Vice President in 2019 and has served as Vice President of Worldwide Sales since July 2000. He has been employed by Microchip since 1989 and has served as a Vice President in various roles since September 1993. Mr. Little holds a B.S. degree in Engineering Technology from United Electronics Institute.

*Mr. Simoncic* was promoted to Senior Vice President in 2019 and has served as Vice President, Analog Power and Interface Business Units since September 1999. From October 1995 to September 1999, he served as Vice President in various roles. Since joining Microchip in 1990, Mr. Simoncic held various roles in Design, Device/Yield Engineering and Quality Systems. Mr. Simoncic holds a B.S. degree in Electrical Engineering Technology from DeVry Institute of Technology.

## Available Information

Microchip Technology Incorporated was incorporated in Delaware in 1989. Our executive offices are located at 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199 and our telephone number is (480) 792-7200.

Our Internet address is [www.microchip.com](http://www.microchip.com). We post the following filings on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC:

- our annual report on Form 10-K
- our quarterly reports on Form 10-Q
- our current reports on Form 8-K
- our proxy statement
- any amendments to the above-listed reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act

All of our SEC filings on our website are available free of charge. The information on our website is not incorporated into this Form 10-K.

## Item 1A. Risk Factors

When evaluating Microchip and its business, you should give careful consideration to the factors below, as well as the information provided elsewhere in this Form 10-K and in other filings we make with the SEC.

### Risk Factor Summary

#### Risks Related to Our Business, Operations, and Industry

- impact of global economic conditions on our operating results, net sales and profitability;
- impact of economic conditions on the financial viability of our licensees, customers, distributors, or suppliers;
- impact of the COVID-19 pandemic, increased tariffs or other factors affecting our suppliers;
- dependence on foreign sales and operations, which exposes us to foreign political and economic risks;
- limited visibility to product shipments;
- dependency on wafer foundries and other contractors by our licensees and ourselves;
- intense competition in the markets we serve, leading to pricing pressures, reduced sales or market share;
- ineffective utilization of our manufacturing capacity or failure to maintain manufacturing yields;
- impact of seasonality and wide fluctuations of supply and demand in the industry;
- dependency on distributors;
- ability to introduce new products on a timely basis;
- business interruptions, including natural disasters, affecting our operations or that of key vendors, licensees or customers;
- technology licensing business exposes us to various risks;
- reliance on sales into governmental projects;
- risks related to grants from governments, agencies and research organizations;
- future acquisitions or divestitures;
- future impairments to goodwill or intangible assets;
- our failure to maintain proper and effective internal control and remediate future control deficiencies;
- customer demands to implement business practices that are more stringent than legal requirements;
- ability to attract and retain qualified personnel; and
- the occurrence of events for which we are self-insured, or which exceed our insurance limits.

#### Risks Related to Cybersecurity, Privacy, Intellectual Property, and Litigation

- attacks on our IT systems and data, interruptions in our IT systems, or improper handling of data;
- risks related to compliance with privacy and data protection laws and regulations;
- risks related to legal proceedings, investigations or claims;
- risks related to contractual relationships with our customers; and
- protecting and enforcing our intellectual property rights.

#### Risks Related to Taxation, Laws and Regulations

- impact of new accounting pronouncements or changes in existing accounting standards and practices;
- fines, restrictions or delay in our ability to export products, or increase costs associated with the manufacture or transfer of products;

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- outcome of future examinations of our income tax returns;
- exposure to greater than anticipated income tax liabilities, changes in or the interpretation of tax rules and regulations including the TCJA, the American Rescue Plan Act of 2021 (ARPA), or unfavorable assessments from tax audits;
- impact of the legislative and policy changes implemented by the new administration;
- impact of stringent environmental, climate change, conflict-free minerals and other regulations or customer demands; and
- requirement to fund our foreign pension plans.

### **Risks Related to Capitalization and Financial Markets**

- impact of various factors on our future trading price of our common stock;
- our ability to effectively manage current or future debt;
- our ability to generate sufficient cash flows or obtain access to external financing;
- impact of conversion of our convertible debt on the ownership interest of our existing stockholders; and
- fluctuations in foreign currency exchange rates.

## Risks Related to Our Business, Operations, and Industry

***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, public health or political conditions in the U.S. or internationally, including ongoing uncertainty surrounding the COVID-19 pandemic and its implications;
- disruptions in our business, our supply chain or our customers' businesses due to public health concerns (including viral outbreaks such as COVID-19), cybersecurity incidents, terrorist activity, armed conflict, war, worldwide oil prices and supply, fires, natural disasters or disruptions in the transportation system;
- 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;
- our ability to increase our factory capacity to respond to changes in customer demand;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- availability of raw materials, supplies and equipment;
- 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;
- the level of order cancellations or push-outs due to the impact of the COVID-19 pandemic or other factors;
- trade restrictions and increase in tariffs, including those on business in China, or focused on specific companies;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- our ability to continue to realize the expected benefits of our past or future acquisitions;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- changes or fluctuations in customer order patterns and seasonality;
- changes in tax regulations in countries in which we do business;
- new accounting pronouncements or changes in existing accounting standards and practices;
- 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;
- our ability to successfully transition 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;
- 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.

Period-to-period comparisons of our operating results are not necessarily meaningful and 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 and public health conditions, such as the COVID-19 pandemic, have caused or may cause our operating results to fluctuate significantly and make comparisons between periods less meaningful.

***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. Any downturn in global economic conditions, as a result of the COVID-19 pandemic or otherwise, may adversely impact their financial viability. 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 inability to collect our accounts receivable balances, higher allowances for credit losses, and higher operating costs as a percentage of net sales.

***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 the impact of the COVID-19 pandemic, increased tariffs or other factors.***

Our manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have multiple sources for these supplies, but there may be a limited number of suppliers capable of meeting our standards. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time to fill our orders or that they will no longer support certain equipment with updates or parts. In particular, we have recently experienced longer lead times for some assembly raw materials required for production purposes. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business. The supplies necessary for our business could become more difficult to obtain as worldwide use of semiconductors increases. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change our relationships with them. Also, the impact of the COVID-19 pandemic or the application of trade restrictions or tariffs by the U.S. or other countries may adversely impact the industry supply chain. For example, in 2019, the U.S. government increased tariffs on U.S. imports with China as their country of origin. Likewise, the China government increased tariffs on China imports with U.S. as their country of origin. We have taken steps to attempt to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not significantly increase the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2020 and fiscal 2019. The additional tariffs imposed on components or equipment that we or our suppliers source from China will increase our costs and could have an adverse impact on our operating results in 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.

Our customers may also be adversely affected by these same issues. The supplies 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, the impact of the COVID-19 pandemic, or trade restrictions or tariffs that impair 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.

***We are highly dependent on foreign sales and operations, which exposes us to foreign political and economic risks.***

Sales to foreign customers account for a substantial portion of our net sales. During fiscal 2021, approximately 77% of our net sales were made to foreign customers, including 22% in China and 16% in Taiwan. During fiscal 2020, approximately 78% of our net sales were made to foreign customers, including 21% in China and 15% in Taiwan.

A strong position in the Chinese market is a key component of our global growth strategy. Although our sales in the Chinese market have been strong in recent quarters, competition in China is intense. Also, during the first quarter of fiscal 2021, economic weakness in the Chinese market adversely impacted our sales volumes in China. As discussed in the risk factor above, the trade relationship between the U.S. and China remains challenging, economic conditions in China remain uncertain, and we are unable to predict whether such uncertainty will continue or worsen in future periods. Weakening of foreign markets could result in lower demand for our products, which could have a material adverse effect on our business, results of operations or financial conditions.

We purchase a substantial portion of our raw materials and equipment from foreign suppliers. In addition, we own product assembly and testing facilities, and finished goods warehouses near Bangkok, Thailand, which has experienced periods of political instability and severe flooding in the past. There can be no assurance that any future flooding or political instability in Thailand would not have a material adverse impact on our operations. We have a test facility in Calamba, Philippines. We use 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 due to the COVID-19 pandemic or other factors;
- 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 laws related to taxes, environmental, health and safety, technical standards and consumer protection;
- currency fluctuations and foreign exchange regulations;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions due to cybersecurity incidents;



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- disruptions in international transport or delivery;
- public health conditions (including viral outbreaks such as COVID-19); and
- difficulties in collecting receivables and longer payment cycles.

If any of these risks occur 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, business interruptions, delays in obtaining export licenses, tariffs and other 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.

### ***We depend on orders that are received and shipped in the same quarter and have limited visibility to product shipments other than orders placed under our Preferred Supply Program.***

Our net sales in any given quarter depend upon a combination of shipments from backlog, and orders that are both received and shipped in the same quarter, which we call 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, our ability to respond quickly to customer orders has been 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 visibility on future shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times. Although our backlog has been very strong in recent periods due to favorable industry conditions and the impact of our Preferred Supply Program, turns orders remain important to our ability to meet our business objectives. Because turns orders can be difficult to predict, especially in times of economic volatility where customers may change order levels within the quarter, 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.

In February 2021, we announced our Preferred Supply Program which offers our customers the ability to receive prioritized capacity in the second half of calendar 2021 and the first half of calendar 2022. To participate in the program, customers have to place 12 months of orders, which cannot be cancelled or rescheduled. The capacity priority will begin for shipments in July 2021. The program is not a guarantee of supply; however, it will provide the highest priority for those orders which are under this program, and the capacity priority will be on a first-come, first-served basis until the available capacity is booked. A significant portion of our capacity is booked under this new program. We believe this program will enable us to be in a stronger position to make capacity and raw material commitments to our suppliers, buy capital equipment with confidence, hire employees and ramp up manufacturing and manufacture products more efficiently. Since this is a new program, there can be no assurance that the program will be successful or that it will benefit our business. In the event that customers under this program attempt to cancel or reschedule orders, we may have to take legal or other action to enforce the terms of the program, and any such actions could result in damage to our customer relationships or cause us to incur significant costs.

### ***We are dependent on wafer foundries and other contractors, as are our SuperFlash and other licensees.***

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. Specifically, during each of fiscal 2021 and fiscal 2020, approximately 61% of our net sales came from products that were produced at outside wafer foundries. We also use several contractors located primarily in Asia for a portion of the assembly and testing of our products. Specifically, during fiscal 2021, approximately 47% of our assembly requirements and 43% of our test requirements were performed by third party contractors compared to approximately 55% of our assembly requirements and 46% of our test requirements during fiscal 2020. Due to increased demand for our products, we have recently taken actions to increase our capacity allocation from our wafer fabrication, assembly and test subcontractors. However, we expect foundry capacity to continue to be tight due to strong demand for wafers across the industry and there can be no assurance that we will be able to secure further additional capacity or that such capacity will be available on acceptable terms. We expect that our reliance on third party contractors may increase over time as our business grows.

Our use of third parties reduces our control over the subcontracted portions of our business. Our future operating results could suffer if a significant contractor were to experience production difficulties, insufficient capacity, decreased manufacturing, assembly and test yields, or increased costs due to disruptions from the COVID-19 pandemic, political upheaval

or infrastructure disruption. If third parties do not timely deliver products or services in accordance with our quality standards, we may be unable to qualify alternate manufacturing sources in a timely manner on favorable terms, or at all. Additionally, these subcontractors could abandon processes that we need, or fail to adopt technologies that we desire to control costs. In such event, we could experience an interruption in production, an increase in manufacturing costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, use of subcontractors increases the risks of misappropriation of our intellectual property.

Certain of our SuperFlash and other technology licensees rely on wafer foundries. If our licensees experienced disruption in supply at such foundries, this would reduce the revenue from our technology licensing business and would harm our operating results.

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

The semiconductor industry is intensely competitive and faces 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 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, including, but not limited to:

- the relative impact of the COVID-19 pandemic on us relative to our competitors;
- 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;
- our ability to obtain adequate foundry and assembly and test capacity and supplies at acceptable prices;
- 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;
- the rate at which customers incorporate our products into their 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 ramp production and increase capacity, at our wafer fabrication and assembly and test facilities;
- 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 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 a product. The average selling prices of our microcontroller, FPGA products, and proprietary products in our analog product line have remained relatively constant over time, while average selling prices of our memory and non-proprietary products in our analog product line 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. Generally, the selling prices of our products increased during fiscal 2021 compared to fiscal 2020 due to increased material costs and increased functionality of products.

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 moderated average selling price declines in many of our proprietary product lines by introducing new products with more features and higher prices. However, we may not be able to do so in the future. We have experienced in the past, and expect to continue to experience, competitive pricing pressures in our memory and non-proprietary products in our analog product line. We may be unable to maintain average selling prices due to increased pricing pressure, which could adversely impact our operating results.

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

Integrated circuits manufacturing processes are complex and sensitive to many factors, including contaminants in the manufacturing environment or materials used, the performance of our personnel and equipment, and other quality issues. As is typical in the 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, and penalties for failure to meet shipment deadlines. Our operating results are adversely affected when we operate below optimal capacity. In fiscal 2021 and fiscal 2020, we operated at below normal capacity levels resulting in unabsorbed capacity charges of \$29.6 million and \$47.2 million, respectively.

***Our operating results are impacted by seasonality and wide fluctuations of supply and demand in the 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 generates stronger revenues in the first half and comparatively weaker revenues in the second half of our fiscal year. However, broad fluctuations in our business, changes in semiconductor industry and global economic conditions (including the impact of the COVID-19 pandemic or 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. In periods when broad fluctuations, changes in business conditions or acquisitions occur, it is difficult to assess the impact of seasonality on our business. The semiconductor industry has had significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclicality by selling proprietary products, that cannot be 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 each of fiscal 2021 and fiscal 2020, and our largest distributor accounted for approximately 10% of our net sales in fiscal 2020. We do not have long-term purchase agreements with our distributors, and we and our distributors may each terminate our relationship with little or no advance notice.

Future adverse conditions in the U.S. or global economies (including the impact of the COVID-19 pandemic) or credit markets could materially impact distributor operations. Any deterioration in the financial condition, or 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, there may be an oversupply and decrease in demand for our products, which could reduce our net sales in a given period and increase inventory returns. Violations of the Foreign Corrupt Practices Act, or similar laws, by our distributors 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. 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 others in the industry have, from time to time, experienced difficulties in transitioning to advanced process technologies and 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.

***Business interruptions to our operations or those of our key vendors, licensees or customers could harm our business.***

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, licensees or customers may be disrupted due to public health concerns (including outbreaks such as COVID-19), work stoppages, power loss, insufficient water, cyber attacks, computer network compromises, incidents of terrorism or security risk, political instability, telecommunications, transportation or other infrastructure failure, radioactive

contamination, or 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 we will avoid a significant impact on our business in the event of a business interruption. For example, in the first quarter of fiscal 2021, restrictions on travel adversely impacted our manufacturing operations in the Philippines and our subcontractors' manufacturing operations in Malaysia and China. Similar challenges arose for our logistics service providers, which adversely impacted their ability to ship product to our customers. The pandemic could adversely impact our business in future periods if the impact of COVID-19 increases. In the future, local governments could require us to temporarily reduce production further or cease operations at any of our facilities and we could experience constraints in fulfilling customer orders.

Additionally, operations at our customers and licensees may be disrupted for a number of reasons. In April and May 2020, we received a greater number of order cancellations and requests by our customers to reschedule deliveries to future dates. Some customers requested order cancellations within our firm order window and claimed applicability of force majeure clauses. 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.

Also, 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 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 timely shift production to other facilities, and we may need to spend significant amounts to repair or replace our facilities and equipment. Business interruptions would likely cause 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, cancellation of orders, or loss of customers. Although we maintain business interruption insurance, such insurance will likely not compensate us for any losses or damages, and business interruptions could significantly harm our business.

***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 such technologies and to introduce new technologies. To be successful, any such technology must be able to be repeatedly 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 development and support services to assist licensees in their design and manufacture of products;
- 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 reduced production levels which would adversely affect the revenue that we receive. Our technology license agreements generally include a clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from certain intellectual property matters. We could be exposed to substantial liability for claims or damages related to intellectual property matters or indemnification claims. Any claim could result in significant legal fees and require significant attention from our management. These issues may adversely impact the success of our licensing business and adversely affect our future operating results.

***Reliance on sales into governmental projects 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 who sell to U.S. government agencies. Such sales are subject to uncertainties regarding governmental spending levels, spending priorities, regulatory and policy changes. Future sales into U.S. government projects are subject to uncertain government appropriations and national defense policies and priorities, including the budgetary process, changes in the timing and spending priorities, the impact of any past or future government shutdowns, contract terminations or renegotiations, future sequestrations, or the impact of the COVID-19 pandemic. For example, as a result of the COVID-19 pandemic, we have experienced suspensions and stop work orders for some of our subcontracts. Although such actions have not yet had a material adverse impact on our business, there can be no assurance as to the future costs or implications of such actions. Sales into government projects 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, in 2018 there were two federal government shutdowns. 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 we may experience further delays, 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.

The U.S. government and its contractors may terminate their contracts with us at any time. For example, in 2014, the U.S. government terminated a \$75 million contract with Microsemi. Uncertainty in government spending and termination of contracts for government related projects could have a material adverse impact on the revenue from our Microsemi acquisition. Our contracts with U.S. governmental agencies or prime customers requires us to comply with the contract terms, and governmental regulations, particularly for our facilities, systems and personnel that service such customers. Complying with these regulations, including audit requirements, requires that we devote significant resources to such matters in terms of training, personnel, information technology and facilities. Any failure to comply 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.

***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 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 expenditures 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 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.

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

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. In May 2018, we acquired Microsemi, which was our largest and most complex acquisition ever. Integration of our acquisitions is complex and may be costly and time consuming and include unanticipated issues, expenses and liabilities. We may not 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. We may not realize the expected synergies and cost savings from the integration. There may be increased risk due to integrating financial reporting and internal control systems. It may be difficult to develop, manufacture and market the products of a newly acquired company, or grow 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 12 to our 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, it may be difficult to find or complete divestiture opportunities or alternative exit strategies, which may include site closures, timely or on acceptable terms. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to the desired divestiture, or the price or terms of the divestiture may be less favorable than we had anticipated. Even following a divestiture or other exit

strategy, we may have certain continuing obligations to former employees, customers, vendors, landlords or other third parties. We may also have continuing liabilities related to 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 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 products resulting from such transactions or to successfully integrate any technology developed through such transactions.

***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 March 31, 2021, we had goodwill of \$6.67 billion and net intangible assets of \$4.79 billion. In connection with the completion of our acquisition of Microsemi in May 2018, our 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 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 2021 or fiscal 2020. No intangible asset impairment charges were recorded in fiscal 2021 compared to \$2.2 million in fiscal 2020. 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 consolidated financial statements.

***If we fail to maintain proper and effective internal control and remediate any future control 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 our reputation with investors.***

As discussed in Item 9A “Controls and Procedures” in our annual report on Form 10-K for the fiscal year ended March 31, 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. Although such material weaknesses were remediated in fiscal 2020, there can be no assurance that similar control issues will not be identified in the future. If we cannot remediate future material weaknesses or significant deficiencies in a 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 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 our 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 designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. 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, which were remediated as of March 31, 2020, we have from time to time identified other significant deficiencies. If we fail to remediate any future 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.

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

Some of our customers require that we implement practices that are more stringent than those required by applicable laws

with respect to labor requirements, the materials contained in our products, energy efficiency, environmental matters or other items. To comply with such requirements, we also require our suppliers to adopt such practices. Our suppliers may in the future refuse to implement these practices, or may charge us more for complying with them. If certain of our suppliers refuse to implement the practices, we may be forced to source from alternate suppliers. The cost to implement such practices may cause us to incur higher costs and reduce our profitability, and if we do not implement such practices, such customers may disqualify us as a supplier, resulting in decreased revenue opportunities. Developing, enforcing, and auditing customer-requested practices at our own sites and in our supply chain will increase our costs and may require more personnel.

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

Our success depends upon our personnel. The loss of or inability to attract key personnel, or the loss of or inability to attract sufficient numbers of non-key personnel, particularly production specialists in our manufacturing operations, could harm our business. We have no employment agreements with any member of our senior management team.

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

#### **Risks Related to Cybersecurity, Privacy, Intellectual Property, and Litigation**

***We continue to be the target of attacks on our IT systems and data and 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 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, supply chain, sales and operating results. Such disruption could result in an unauthorized release of our, our suppliers' or our customers' intellectual property or confidential, proprietary or sensitive information, or the release of personal data. Any release of such information or data 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. In addition, any release of such information or data or the failure to properly manage the collection, handling, transfer or disposal of such information may result in regulatory inquiries or penalties, enforcement actions, remediation obligations, claims for damages, litigation, and other sanctions.

From time to time, we have experienced verifiable attacks on our IT systems and data, including network compromises, attempts to breach our security measures 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 took various 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 routinely evaluate the effectiveness of the containment mechanisms that were implemented and continue to implement additional measures from time to time. We have analyzed and continue to analyze the amount and content of the information that was compromised. 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. As a result of the IT system compromise, our management, including our chief executive officer and our chief financial officer, concluded that our internal controls related to IT system access were not effective resulting in a material weakness in our internal controls for fiscal 2019. Although this material weakness in our internal control was remediated in fiscal 2020, there can be no assurance that similar control issues will not be identified in future periods.

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 have experienced and expect to continue to experience in the future, attacks on our IT systems and data, including attempts to breach our security, network compromises 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 regularly implemented improvements to our

protective measures which include, but are not limited to, implementation of the following: firewalls, endpoint intrusion 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 in 2019, we have taken remediation actions and implemented additional controls and we are continuing to take actions to attempt to address evolving threats. However, recent system improvements have not been fully effective in preventing attacks on our IT systems and data, including breaches of our security measures, and there can be no assurance that any future system improvements will be effective in preventing future cyber-attacks or disruptions 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, attacks or disruptions could result in additional costs related to rebuilding our internal systems, defending litigation, complaints or other claims, providing notices to regulatory agencies or other third parties, 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 portions of our and our customers' 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 breach or 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.

***Our failure to comply with federal, state, or international privacy and data protection laws and regulations may materially adversely affect our business, results of operations and financial condition.***

We are subject to numerous laws and regulations in the U.S. and internationally regarding privacy and data protection such as the European Union's (EU) General Data Protection Regulation (GDPR), the U.K. equivalent to the GDPR, the California Consumer Privacy Act, and the California Privacy Rights Act. The scope of these laws and regulations is rapidly evolving, subject to differing interpretations, and may be inconsistent among jurisdictions. Some of these laws create a broad definition of personal information, establish data privacy rights, impose data breach notification requirements, and create potentially severe statutory damages frameworks and private rights of action for certain data breaches. Some of the laws and regulations also place restrictions on our ability to collect, store, use, transmit and process personal information and other data across our business. For example, the GDPR restricts the ability of companies to transfer personal data from the European Economic Area (EEA) to the U.S. and other countries. Further, such laws and regulations have resulted and will continue to result in significantly greater compliance burdens and costs for companies such as us that have employees, customers, and operations in the EEA.

In order to comply with the GDPR, we have relied mainly on the European Commission's Standard Contractual Clauses (SCCs), for transfers of personal information from the EEA to the U.S. or other countries. However, the Court of Justice of the EU in a July 2020 decision (Schrems II) invalidated the EU-U.S. Privacy Shield Framework, and also called for stricter conditions in the use of the SCCs. Following the Schrems II decision, certain data protection authorities in the EU have issued statements advising companies within their jurisdiction not to transfer personal data to the U.S. under the SCCs. At present, there are few, if any, viable alternatives to the SCCs. If we are unable to implement sufficient safeguards to ensure that our transfers of personal information from the EEA are lawful, we may face increased exposure to regulatory actions and substantial fines and injunctions against processing personal information from the EEA. The loss of our ability to lawfully transfer personal data out of the EEA may cause reluctance or refusal by European customers to communicate with us as they are currently, and we may be required to increase our data processing capabilities in the EEA at significant expense. Additionally, other countries outside of the EEA have passed or are considering passing laws requiring local data residency which could increase the cost and complexity of providing our products in those jurisdictions.

Furthermore, the GDPR and the U.K. equivalent of the GDPR expose us to two parallel data protection regimes in Europe, each of which potentially authorizes fines and enforcement actions for certain violations. Substantial fines may be imposed for breaches of data protection requirements, which can be up to 4% of a company's worldwide revenue or 20 million Euros, whichever is greater. Although the U.K. data protection regime currently permits data transfers from the U.K. to the EEA and other third countries, covered by a European Commission 'adequacy decision' through the continued use of SCCs and binding corporate rules, these laws and regulations are subject to change, and any such changes could have adverse implications for our transfer of personal data from the U.K. to the EEA and other third countries.

While we plan to continue to undertake efforts to conform to current regulatory obligations and evolving best practices, such efforts may be unsuccessful or result in significant costs. We may also experience reluctance, or refusal by European or multi-national customers to continue to provide us with personal data due to the potential risk exposure of personal data transfers and the current data protection obligations imposed on them by applicable data protection laws or by certain data



protection authorities. These and any other data privacy laws and their interpretations continue to develop and their uncertainty and inconsistency may increase the cost of compliance, cause compliance challenges, restrict our ability to offer products in certain locations in the same way that we have been, potentially adversely affect certain third-party service providers, or subject us to sanctions by data protection regulators, all of which could adversely affect our business, financial condition and results of operations.

***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 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, have in the past and could in the future result in substantial costs to us. If we are unable to resolve or settle a matter, obtain necessary licenses on reasonable terms, reengineer products 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 a 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 or our customer's specifications, 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 revenue and profits we received. While we 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 law. We have liability insurance which covers certain damages arising out of product defects, but we do not expect that insurance will fully protect against such claims. 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 application 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.

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

With the exception of orders placed under our Preferred Supply Program, 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 customer's convenience. While we had approximately 114,000 customers, and our ten largest direct customers accounted for approximately 11% of our total revenue for fiscal 2021, 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. For example, due to uncertainty related to the COVID-19 pandemic, we experienced an increase in order cancellations and requests to reschedule deliveries to future dates in the first quarter of fiscal 2021.

Certain customer contracts differ from our standard terms of sale. For some of the markets that we sell into, such as the automotive and personal computer markets, our customers may have negotiating leverage over us as a result of their market size. For example, under certain contracts we may commit to supply products on scheduled delivery dates, or extend our obligations for liabilities such as warranties or indemnification for quality issues or intellectual property infringement. If we are

unable to supply the customer as contractually required, the customer may incur additional production costs, lost revenues due to delays in their manufacturing schedule, or quality-related issues. We may be liable for costs and damages associated with customer claims, and we may be obligated to defend the customer against claims of intellectual property infringement and pay associated legal fees. While we try to minimize the number of contracts which contain such provisions, manage the risks of such liabilities, and set caps on our liability exposure, sometimes we are unable 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, and may in the future, have to agree to uncapped liability for such items as intellectual property infringement or product failure. This exposes us to risk of liability far exceeding the purchase price of the products sold under such contracts, the lifetime revenues we receive under such contracts, or potential consequential damages. Further, where we do not have negotiated customer contracts, our customer's order terms may govern the transaction and contain terms unfavorable to us. These risks could result in a material adverse impact on our results of operations and financial condition.

***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 licenses and intend to continue to seek patents on our technology and manufacturing processes. The process of seeking patent protection can be expensive, and patents may not be issued from currently pending or future applications. In addition, our existing and new patents, trademarks and copyrights that are issued may not have sufficient scope or strength to provide meaningful protection or commercial advantage to us. We may be subject to, or may 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 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 aggressively defend and protect our intellectual property on a worldwide basis, there can be no assurance that we will be successful.

**Risks Related to Taxation, Laws and Regulations**

***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 U.S. GAAP. These accounting principles are subject to interpretation or changes by the FASB and the SEC. New accounting pronouncements and 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 accounting standards or practices may have a significant effect on our reported financial results and may affect our reporting of transactions completed before the change is effective.

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

A significant portion of our sales require export and import activities. Our U.S.-manufactured products or products based on U.S. technology are subject to laws and regulations on international trade, including but not limited to the Foreign Corrupt Practices Act, EARs, International Traffic in Arms Regulations and trade sanctions against embargoed countries and denied entities, including those administered by the U.S. Department of the Treasury, Office of Foreign Assets Control. Licenses or license exceptions are required for the shipment of our products to certain countries. Our inability to timely obtain a license, for any reason, including a delay in license processing due to a federal government shutdown like that which occurred in 2018, could cause a delay in scheduled shipments which could have a material adverse impact on our revenue within the quarter of a shutdown, and in following quarters depending on the extent that license processing is delayed. Further, determination by a government that we have failed to comply with trade regulations or anti-bribery regulations can result in penalties which may include denial of export privileges, fines, penalties, and seizure of products, any of which could have a material adverse effect on our business, sales and earnings. A change in laws and regulations could restrict our ability to transfer product to previously permitted countries, customers, distributors or others. 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 subsidiaries. This ban was lifted in July 2018. 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 subsidiaries. In fiscal 2020, the U.S. Federal Acquisition Regulation prohibited U.S. governmental agencies from buying equipment using covered telecommunications equipment as a substantial component or critical technology where the technology came from certain Chinese companies. On July 14, 2020, this was expanded to prohibit U.S. governmental agencies from entering into a contract with any company that uses covered telecommunications equipment whether or not the Chinese technology is related to the

procurement. Effective June 2020, amendments to the EAR regarding prohibitions of sales of items with a “military end use” into China, Russia, and Venezuela, and elimination of an EAR License Exception, apply to more of our products than the previous regulations. Any of the foregoing changes could adversely impact our operational costs due to the administrative impacts of complying with these regulations, and may limit those with whom we conduct business. 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.

The U.S. and other countries have levied tariffs and taxes on certain goods, implemented trade restrictions, and introduced national security protection policies. Trade tensions between the U.S. and China, which escalated in 2018, have continued and include the U.S. increasing tariffs on Chinese origin goods and China increasing tariffs on U.S. origin goods. Some of our products were adversely affected and are continuing to be affected by the increased tariffs. We took steps to mitigate the costs of these tariffs on our business by making adjustments in operations and supply. Although these tariff increases did not result in a material adverse impact on our operating costs in fiscal 2019 or fiscal 2020, they did reduce demand for our products during fiscal 2019 and fiscal 2020. Increased tariffs on our customers' products could adversely impact their sales, and increased tariffs on our products in comparison to those of our competitors could each result in lower demand for our products.

Further changes in trade or national security protection 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 reduce our ability to sell products, which could have a material adverse effect on our business, results of operations or financial conditions.

***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 U.S. and certain foreign income tax returns for fiscal 2007 and later. We regularly assess the likelihood of adverse outcomes of these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from current or future 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, 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 many U.S. and foreign jurisdictions. Our income tax obligations could be affected by many factors, including changes to our 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 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 TCJA 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 TCJA is unclear in some respects and will require interpretations and implementing regulations by the Internal Revenue Service (IRS), 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. Changes to the taxation of certain foreign earnings resulting from the TCJA, 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 plans 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 Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Shifting Project, and issued a report in 2015, an interim report in 2018, and is expected to continue to issue guidelines and proposals that may change aspects of the existing framework under which our tax obligations are determined in many of the countries where

we do business. Similarly, the European Commission and several countries have issued proposals that would change aspects of the current tax framework under which we are taxed. These proposals include changes to the existing income tax framework, and proposals to change or impose new types of non-income taxes, including taxes based on a percentage of revenue.

***Our business, financial condition and operating results may be adversely impacted by policies implemented by the new administration.***

As a result of the outcome of the 2020 U.S. elections, the new administration could make significant legislative and policy changes in areas including but not limited to tax, trade, labor and the environment. If implemented, these changes could increase our effective tax rate, and increase our selling and/or manufacturing costs, which could have a material adverse effect on our business, results of operations or financial conditions. Changes in tax policy, trade regulations or other matters, and any uncertainty surrounding the scope or timing of such changes, could negatively impact the stock market, and reduce the trading price of our stock.

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

We must comply with federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of 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 regulations could result in significant fines, liability for clean-up, suspension of production, cessation of operations or future liabilities. Such regulations have required us in the past, and could require us in the future, 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 logistics, or require us to incur other significant costs and expenses. Environmental laws continue to expand with a focus on reducing or eliminating hazardous substances in electronic products and shipping materials. 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, the recycling of electronic products, and the reduction in the amount and the recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may have insufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may have to write off inventory if we hold unsaleable inventory as a result of changes to regulations. We expect these risks to continue. These requirements may increase our own costs, as well as those passed on to us by our supply chain.

***Climate change regulations and sustained adverse climate change pose risks that could harm our results of operations.***

Climate change regulations could require us to limit emissions, change manufacturing processes, substitute materials which may cost more or be less available, fund offset projects, obtain new permits or undertake other costly activities. Failure to obtain permits could result in fines, suspension or cessation of production. Restrictions on emissions could result in significant costs such as higher energy costs, carbon taxes, and emission cap and trade programs. The cost of compliance with such regulations could restrict our manufacturing operations, and have an adverse effect on our operating results.

Further, sustained adverse change in climate could have a direct adverse economic impact on us, such as utility shortages, and higher costs of utilities. Certain of our operations are located in arid or tropical regions, which some experts believe may become vulnerable to fires, storms, severe floods and droughts. While our business recovery plans are intended to allow us to recover from natural disasters or other disruptive events, our plans may not protect us from all events.

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

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released investigation, and disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries. We filed a Form SD with the SEC regarding such matters on May 29, 2020. Other countries are considering similar regulations. If we cannot certify that our supply chain is free from the risk of irresponsible sourcing, customers may demand that we change the sourcing of materials used in the manufacture of our products, even if the costs for compliant materials significantly increases or availability is limited. If we change 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 free from the risk of irresponsible sourcing. We have incurred, and expect in the future to incur, additional costs associated with complying with these disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. We may be unable to satisfy 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 unable to meet customer requirements, customers may disqualify us as a supplier and we may have to write off inventory if it cannot be sold.

In addition to concerns over “conflict” minerals mined from the Democratic Republic of Congo, our customers may require that other minerals and substances used within our supply chain be evaluated and reported on. An increase in reporting obligations will increase associated operating costs. This could have negative effects on our overall operating profits.

***A requirement to fund our foreign pension plans could negatively affect our cash position and operating capital.***

In connection with our acquisitions of Microsemi and Atmel, we assumed pension plans that cover certain French and German employees. Most of these plans are unfunded in compliance with statutory requirements, and we have no immediate intention of funding these plans. The projected benefit obligation totaled \$83.0 million at March 31, 2021. Benefits are paid when amounts become due. We expect to pay approximately \$1.6 million in fiscal 2022 for benefits earned. Should regulations require funding of these plans in the future, it could negatively affect our cash position and operating capital.

#### **Risks Related to Capitalization and Financial Markets**

***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 recent 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:

- global economic and financial uncertainty due to the COVID-19 pandemic or other factors;
- quarterly variations in our operating results or the operating results of other technology companies;
- 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;
- our ability to realize the expected benefits of our completed or future acquisitions; and
- actual or anticipated announcements of technical innovations or new products by us or our competitors.

In addition, the stock market has recently and in the past experienced significant price and volume fluctuations that have affected the market prices for many companies and that often have been unrelated to their operating performance. These broad market fluctuations and other factors have harmed and may harm the market price of our common stock. The foregoing factors could also cause the market price of our Convertible Debt to decline or fluctuate substantially.

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

As of March 31, 2021, the principal amount of our outstanding indebtedness was \$9.21 billion. As a result of our acquisition of Microsemi, we have substantially more debt than we had prior to May 2018. At March 31, 2021, we had \$2.35 billion in outstanding borrowings under our Revolving Credit Facility which provides up to \$3.57 billion of revolving loan commitments that terminate in 2023. At March 31, 2021, we had \$5.6 billion in aggregate principal amount of Senior Notes and \$1.26 billion in aggregate principal of Convertible Debt outstanding. In fiscal 2021 and fiscal 2020, we repurchased \$3.27 billion and \$615.0 million, respectively, in principal amount of our convertible debt and repaid all amounts outstanding under our Term Loan Facility primarily through borrowings under our Revolving Credit Facility, issuance of senior notes, and issuance of convertible debt.

Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance our current or future debt and there can be no assurance that we will be able to do so on reasonable terms, if at all.

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

Our ability to make scheduled payments of principal, interest, or to refinance our indebtedness, including our outstanding Convertible Debt and Senior Notes, depends on our future performance, which is subject to economic, competitive and other factors including those related to the COVID-19 pandemic. Our business may not continue to generate sufficient cash flow 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 undertake alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on onerous or highly dilutive terms. 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 financial metrics including debt levels. There is no assurance that we will maintain our current credit ratings. A downgrade of our credit rating by a major credit rating agency 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.

***Conversion of our Convertible Debt will dilute the ownership interest of our existing stockholders.***

The conversion of some or all of our outstanding Convertible Debt will dilute the ownership interest of our existing stockholders to the extent we deliver common stock upon conversion of such debt. 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 Convertible Debt, 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 in cash. If the conversion value of the Convertible Debt exceeds the principal amount, 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 Convertible Debt 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 Convertible Debt could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Debt may encourage short selling by market participants because the conversion of the Convertible Debt could be used to satisfy short positions, or anticipated conversion of the Convertible Debt into shares of our common stock could depress the price of our common stock.

***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 the value of a non-U.S. currency significantly declines relative to the U.S. dollar, customers transacting in that currency may be unable to fulfill their contractual obligations or to undertake new obligations to make payments or purchase products. In periods when the U.S. dollar declines significantly relative to the British pound, Euro, Thai baht and Taiwan dollar, 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.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

At March 31, 2021, we owned and used the facilities described below:

<b>Location</b>	<b>Approximate Total Sq. Ft.</b>	<b>Principal Operations</b>
Gresham, Oregon	826,500	Wafer fabrication (Fab 4), R&D center, warehousing and administrative offices
Chandler, Arizona	687,000	Executive and administrative offices, wafer probe, R&D center, sales and marketing, and computer and service functions
Chacherngsao, Thailand	489,000	Assembly and test, wafer probe, sample center, warehousing and administrative offices
Colorado Springs, Colorado	480,000	Wafer fabrication (Fab 5), test and R&D
Calamba, Philippines	460,000	Wafer probe, test, warehousing and administrative offices
Tempe, Arizona	457,000	Wafer fabrication (Fab 2), R&D center, warehousing and administrative offices
Bangalore, India	294,000	R&D center, sales and marketing support and administrative offices
Chacherngsao, Thailand	215,000	Assembly and test, warehousing and administrative offices
Chennai, India	187,000	R&D center
Rousset, France	170,000	Test, R&D and administrative offices
Lawrence, Massachusetts	160,000	Manufacturing and administrative offices
Mount Holly Springs, Pennsylvania	100,000	Manufacturing, R&D and administrative offices
Garden Grove, California	98,100	Manufacturing, R&D and administrative offices
San Jose, California	98,000	R&D and administrative offices
Neckarbischofsheim, Germany	80,000	Manufacturing and administrative offices
Nantes, France	77,000	Wafer probe, test, R&D, warehousing and administrative offices
San Jose, California	71,000	R&D and administrative offices
San Jose, California	57,000	R&D and administrative offices
Beverly, Massachusetts	52,103	Manufacturing
Heilbronn, Germany	46,000	R&D and administrative offices
Karlsruhe, Germany	43,000	R&D and administrative offices
Ennis County, Ireland	40,000	Manufacturing, R&D and administrative offices
Simsbury, Connecticut	32,500	Manufacturing, R&D and administrative offices
Shanghai, China	21,000	R&D, sales and marketing support and administrative offices
Hsinchu, Taiwan	15,000	R&D and administrative offices

In addition to the facilities we own, we lease several manufacturing, research and development facilities and sales offices in North America, Europe and Asia.

We currently believe that our existing facilities are suitable and will be adequate to meet our requirements for at least the next 12 months.

See page 42 for a discussion of the capacity utilization of our manufacturing facilities.

**Item 3. Legal Proceedings**

Refer to Note 12 to our consolidated financial statements for information regarding legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

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

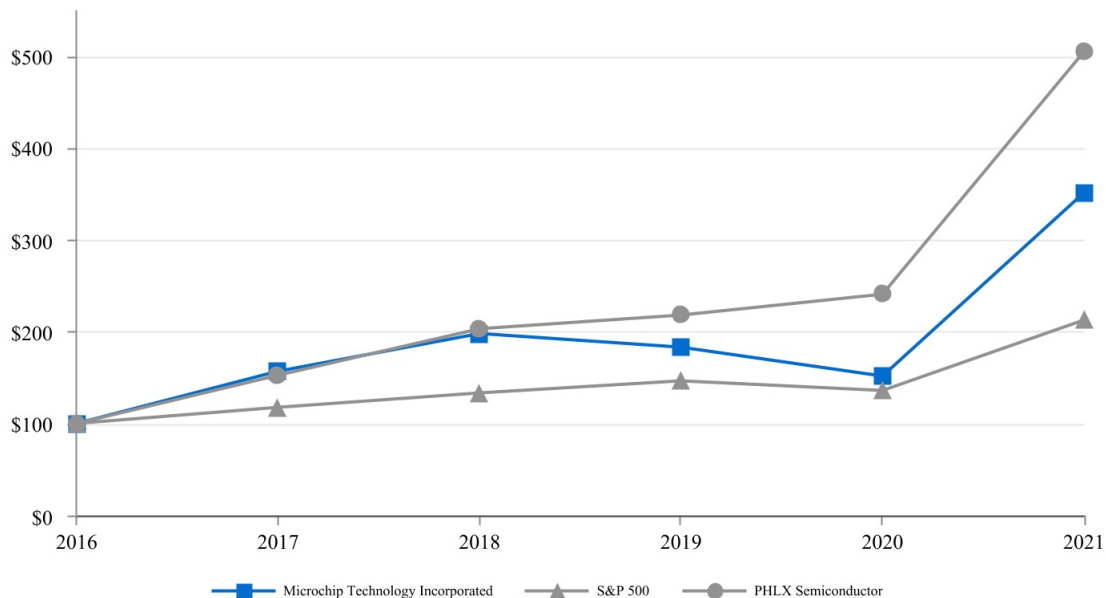
Our common stock is traded on the NASDAQ Global Market under the symbol "MCHP."

*Stock Price Performance Graph*

The following graph and table show a comparison of the five-year cumulative total stockholder return, calculated on a dividend reinvestment basis, for Microchip Technology Incorporated, the Standard & Poor's (S&P) 500 Stock Index, and the Philadelphia Semiconductor Index.

**Comparison of 5 year Cumulative Total Return\***

Among Microchip Technology Incorporated, the S&P 500 Index and the PHLX Semiconductor Index



\*\$100 invested on March 31, 2016 in stock or index, including reinvestment of dividends  
Fiscal year ending March 31.

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	Cumulative Total Return					
	March 2016	March 2017	March 2018	March 2019	March 2020	March 2021
Microchip Technology Incorporated	100.00	156.77	197.49	182.47	151.54	351.41
S&P 500 Stock Index	100.00	117.17	133.57	146.25	136.05	212.71
Philadelphia Semiconductor Index	100.00	152.17	203.28	217.73	240.33	504.64

Data acquired by Research Data Group, Inc. ([www.researchdatagroup.com](http://www.researchdatagroup.com))

On May 7, 2021, there were approximately 567 holders of record of our common stock. This figure does not reflect beneficial ownership of shares held in nominee names.



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For a description of our dividend policies, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," included herein.

Refer to "Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters," at page 49 below, for the information required by Item 201(d) of Regulation S-K with respect to securities authorized for issuance under our equity compensation plans at March 31, 2021.

**Issuer Purchases of Equity Securities**

From time to time, our Board of Directors has authorized the repurchase of shares of our common stock in the open market or in privately negotiated transactions. In January 2016, our Board of Directors authorized an increase in the then existing share repurchase program to 15.0 million shares of common stock. There were no repurchases of common stock during fiscal 2021. There is no expiration date associated with this repurchase program.

**Item 6. Selected Financial Data**

Part II, Item 6 is no longer required as the Company has elected to early adopt the change to Item 301 of Regulation S-K contained in SEC Release No. 33-10890.

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

### Note Regarding Forward-looking Statements

This report, including "Item 1. Business," "Item 1A. Risk Factors," and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 12 and elsewhere in this Form 10-K. 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 impact of the COVID-19 pandemic on demand for our products;
- Our expectation that certain supply chain constraints will continue through the remainder of calendar year 2021 and possibly into calendar year 2022;
- That if the impact of COVID-19 cases continues or worsens, the pandemic could adversely impact our business in future periods;
- That local governments could require us or our suppliers to temporarily reduce production further or cease operations and we could experience constraints in fulfilling customer orders;
- Our belief that our actions to combat the spread of COVID-19 will help preserve the health of our team members, customers, suppliers, visitors to our facilities, people with whom we conduct business and our communities, and allow us to safely continue operations;
- Our inability to predict how the COVID-19 pandemic, and actions taken by others in response to it, will affect our business;
- 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 national security protections, 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 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 days of inventory at June 30, 2021 will be flat to down 5 days compared to the March 31, 2021 levels;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- 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 product line and the effect of such an increase;
- 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;
- Our expectation that foundry capacity will continue to be tight due to strong demand for wafers across the industry;
- Our expectation that we will continue to operate our manufacturing facilities at or above normal capacity if the current supply constraints relative to demand continue through fiscal 2022;

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- 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 cyber-attacks, computer viruses, unauthorized access and other attempts to breach or otherwise compromise the security of our IT systems and data;
- 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 accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our effective tax rate;
- The impact of the geographical dispersion of our earnings and losses on our effective tax rate;
- That we expect to be able to realize the future tax benefit resulting from certain intra-group asset transfers;
- Our belief that the estimates used in preparing our 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 increase our borrowings or seek additional equity or debt financing to maintain or expand our facilities, or to fund cash dividends, share repurchases, acquisitions or other corporate activities, and that the timing and amount of such financing requirements will depend on a number of factors;
- Our intention to satisfy the lesser of the principal amount or the conversion value of our Convertible Debt 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 expectation that our reliance on third party contractors may increase over time as our business grows;
- Our ability to collect accounts receivable; and
- The impact of the legislative and policy changes implemented or which may be implemented by the new administration, on our business and the trading price of our stock.

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-K. 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 consolidated financial statements and the related notes that appear elsewhere in this document, as well as with other sections of this Annual Report on Form 10-K, including "Item 8. Financial Statements and Supplementary Data." For an overview of our business, refer to "Part I Item 1. Business."

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of COVID-19 developments 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 fiscal 2021 compared to fiscal 2020, followed by an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in the section titled "Liquidity and Capital Resources." Our liquidity and capital resources section generally discusses fiscal 2021 compared to fiscal 2020. For our discussion of our fiscal 2020 results compared to fiscal 2019 for both our results of operations and our liquidity and capital resources sections, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed with the SEC on May 22, 2020, which is incorporated by reference herein.

## COVID-19 Developments

In the first half of fiscal 2021, the COVID-19 pandemic resulted in a global disruption in economic activity by adversely affecting production, creating supply chain and market disruption, and adversely impacting businesses and individuals. In the second half of fiscal 2021, business conditions were unexpectedly strong as businesses and individuals adapted to the effects of the pandemic. Supply chains, however, were stressed as they were not expecting the level of economic strength that occurred. The impact of the pandemic on individuals and in certain locations in which we operate remains uncertain and will depend on many factors, such as the effectiveness of containment efforts including the use and effectiveness of vaccines. We regularly monitor new information regarding the severity of COVID-19 and the ability to contain, treat, or prevent it.

Demand for our products that serve certain markets, such as consumer, automotive, and industrial increased in the second half of fiscal 2021, offsetting the adverse demand fluctuations in the early part of fiscal 2021 caused by the COVID-19 pandemic. Additionally, the markets that benefited earlier in fiscal 2021 from the stay-at-home economy, such as datacenters and communications reverted to normal demand levels by the second half of fiscal 2021 and remained at such levels at the end of fiscal 2021. While we have a diverse customer base operating in diverse industries, the extent of the impact of the COVID-19 pandemic on demand for our products depends on unpredictable future developments.

At this time, our global manufacturing sites and our logistics channels are fully operational and local restrictions related to the COVID-19 pandemic that impacted us in the first quarter of fiscal 2021 have eased. During the second half of fiscal 2021, we experienced strong demand and low levels of inventory on our balance sheet and at our external distribution channel partners, and we continued to experience constraints in all our internal and external factories and their related manufacturing supply chains. We started ramping up production at our internal factories in September 2020, as well as investing in capital additions to expand our internal capacity. We also worked closely with our wafer fabrication, assembly and test subcontractors to secure additional capacity. While we expect our overall capacity to grow every quarter in calendar 2021, we expect the wafer fabrication, assembly and test constraints to persist through the remainder of calendar 2021 and possibly into calendar 2022. As a result, lead times continue to increase for many of our products. If the impact of COVID-19 continues or worsens, the pandemic could adversely impact our business in future periods. In the future, local governments could require us or our suppliers to temporarily reduce production or cease operations and we could experience constraints in fulfilling customer orders.

In response to the early indications of the COVID-19 pandemic, we took proactive measures to safeguard the health of our employees, contractors, customers, suppliers, visitors to our facilities, other business partners, and our communities. We strategically implemented plans intended to ensure business continuity in the event severe outbreaks or government requirements were to impact our operations. We monitor governmental policies and CDC recommendations and take appropriate actions which are designed to prevent and control the spread of COVID-19.

We continuously assess our efforts to combat the COVID-19 pandemic which have included the following:

- We require social distancing, and have established distancing protocols at our facilities. We have suspended attendance at conferences and other gatherings and recently began to allow limited business travel. We generally require team members to work from home to the extent possible. Where work from home is not possible, all on-site team members are requested to take their temperatures before arriving to work, stay home if they do not feel well, stay home if they have been exposed to someone with COVID-19 or its symptoms, maintain a safe distance

from others, wash their hands frequently, and wear a mask if they choose. We clean high touch surfaces at least daily.

- In partnership with our suppliers, we have evaluated our supply chain to identify gaps or weak points. In order to ensure continuity, in some cases, we have qualified alternative suppliers and increased our inventory of raw materials.
- We have added and continue to add assembly and test capacity to provide redundant manufacturing capability through our network of subcontractors.
- We implemented measures to help prepare for economic uncertainty, such as employee salary cuts, limiting hiring, reducing business travel costs, reducing discretionary spending, and limiting capital expenditures. In December 2020, we restored previous reductions in compensation, resumed hiring, and increased spending for certain capital expenditures to help meet business demands.
- We are working with government authorities in the areas where we have a significant footprint. We continue to update ourselves on government requirements, relevant regulations, industry standards, and best practices to help safeguard our team members across the globe.

We believe these actions are important and will help preserve the health of our team members, customers, suppliers, visitors to our facilities, people with whom we conduct business and our communities, and allow us to safely continue operations. However, we cannot predict how these actions, or the actions taken by government entities, suppliers, or customers in response to the COVID-19 pandemic will impact our business, revenues, or results of operations.

## **Critical Accounting Policies and Estimates**

### *General*

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. 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, 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. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### *Revenue Recognition*

We generate revenue primarily from sales of our semiconductor products to distributors and non-distributor customers (direct customers) and, to a lesser extent, from royalties paid by licensees of our intellectual property. We apply the following five-step approach to determine the timing and amount of revenue recognition: (i) identify the contract with the customer, (ii) identify performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the performance obligation is satisfied.

Sales to our distributors are governed by a distributor agreement, a purchase order, and an order acknowledgment. Sales to distributors do not meet the definition of a contract until the distributor has sent in a purchase order, we have acknowledged the order, we have deemed the collectability of the consideration to be probable, and legally enforceable rights and obligations have been created; this generally occurs 30 days prior to the estimated ship date. As is customary in the semiconductor industry, we offer price concessions and stock rotation rights to many of our distributors. As these are forms of variable consideration, we estimate the amount of consideration to which we will be entitled using recent historical data and applying the expected value method. Usually, there is only a single performance obligation in the contract, and therefore the entire transaction price is allocated to the single performance obligation. After the transaction price has been allocated, we recognize revenue when the performance obligation is satisfied. Substantially all of the revenue generated from contracts with distributors is recognized at the time risk and title of the inventory transfers to the distributor.

Sales to our direct customers are generally governed by a purchase order and an order acknowledgment. Sales to direct customers usually do not meet the definition of a contract until shipment of the product occurs. Generally, the transaction price associated with contracts with direct customers is set at the standalone selling price and is not variable. Usually, there is only a

single performance obligation in the contract, and therefore the entire transaction price is allocated to the single performance obligation. After the transaction price has been allocated, we recognize revenue when the performance obligation is satisfied. Substantially all of the revenue generated from contracts with direct customers is recognized at the time risk and title of the inventory transfers to the customer.

Revenue generated from our licensees is governed by licensing agreements. Our primary performance obligation related to these agreements is to provide the licensee the right to use the intellectual property. The final transaction price is determined by multiplying the usage of the license by the royalty, which is fixed in the licensing agreement. Revenue is recognized as usage of the license occurs.

#### *Business Combinations*

All of our business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense. The measurement of the fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. Under the acquisition method of accounting, the aggregate amount of consideration we pay for a company is allocated to net tangible assets and intangible assets based on their estimated fair values as of the acquisition date. The excess of the purchase price over the value of the net tangible assets and intangible assets is recorded to goodwill. On an annual basis, we test goodwill for impairment and through March 31, 2021, we have never recorded an impairment charge related to goodwill.

#### *Share-based Compensation*

We measure at fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, RSUs and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. We utilize RSUs as our primary equity incentive compensation instrument for employees. Share-based compensation cost is measured on the grant date based on the fair market value of our common stock discounted for expected future dividends and is recognized as expense on a straight-line basis over the requisite service periods. Total share-based compensation expense recognized during the fiscal 2021 was \$198.3 million, of which \$171.7 million was reflected in operating expenses and \$26.6 million was reflected in cost of sales. Total share-based compensation included in our inventory was \$10.2 million at March 31, 2021.

If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions.

#### *Inventories*

Inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. We write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required. 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. In estimating our inventory obsolescence, we primarily evaluate estimates of demand over a 12-month period and record impairment charges for inventory on hand in excess of the estimated 12-month demand. Estimates for projected 12-month demand are generally based on the average shipments of the prior three-month period, which are then annualized to adjust for any potential seasonality in our business. The estimated 12-month demand is compared to our most recently developed sales forecast to further reconcile the 12-month demand estimate. Management reviews and adjusts the estimates as appropriate based on specific situations. For example, demand can be adjusted up for new products for which historic sales are not representative of future demand. Alternatively, demand can be adjusted down to the extent any existing products are being replaced or discontinued.

In periods where our production levels are substantially below our normal operating capacity, the reduced production levels of our manufacturing facilities are charged directly to cost of sales. As a result of production being below normal operating levels in our wafer fabrication facilities, approximately \$29.6 million and \$47.2 million was charged to cost of sales in fiscal 2021 and fiscal 2020, respectively.

#### *Income Taxes*

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We provided valuation allowances for certain of our deferred tax assets, where it is more likely than not that some portion, or all of such assets, will not be realized.

Various taxing authorities in the U.S. and other countries in which we do business scrutinize 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. We are currently being audited by the tax authorities in the U.S. 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.

The accounting model related to the valuation of uncertain tax positions requires us to presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information and that each tax position will be evaluated without consideration of the possibility of offset or aggregation with other positions. The recognition requirement for the liability exists even if we believe the possibility of examination by a taxing authority or discovery of the related risk matters is remote or where we have a long history of the taxing authority not performing an exam or overlooking an issue. We will record an adjustment to a previously recorded position if new information or facts related to the position are identified in a subsequent period. All adjustments to the positions are recorded through the income statement. Generally, adjustments will be recorded in periods subsequent to the initial recognition if the taxing authority has completed an audit of the period that results in the position being effectively settled or if the statute of limitation expires. Due to the inherent uncertainty in the estimation process and in consideration of the criteria of the accounting model, amounts recognized in the financial statements in periods subsequent to the initial recognition may significantly differ from the estimated exposure of the position under the accounting model.

#### *Convertible Debt*

Upon issuance, we separately account for the liability and equity components of our Convertible Debt by estimating the fair values of the i) liability component without a conversion feature and ii) the conversion feature. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statements of income.

Upon settlement of our Convertible Debt instruments, we allocate the total consideration between the liability and equity components based on the fair value of the liability component without the conversion feature. The difference between the consideration allocated to the liability component and the net carrying value of the liability component is recognized as an extinguishment loss or gain. The remaining settlement consideration is allocated to the equity component and recognized as a reduction of additional paid-in capital in our consolidated balance sheets. In addition, if the terms of the settlement are different from the contractual terms of the original instrument, we recognize an inducement loss, which is measured as the difference between the fair value of the original terms of the instrument and the fair value of the settlement terms.

Determining the fair value of the liability component without the conversion feature upon issuance and settlement involves estimating the equivalent borrowing rate for a similar non-convertible instrument. Given the values of these transactions, fair value estimates are sensitive to changes in the equivalent borrowing rate conclusions. The measurement of the equivalent borrowing rate requires that we make estimates of volatility and credit spreads to align observable market inputs with the instrument being valued.

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Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding Convertible Debt in our diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have been met. We apply the treasury stock method as we have the intent and have adopted an accounting policy to settle the principal amount of the Convertible Debt in cash. This method results in incremental dilutive shares when the average fair value of our common stock for a reporting period exceeds the conversion prices per share and adjusts as dividends are recorded in the future.

### *Contingencies*

In the ordinary course of our business, we are exposed to various liabilities as a result of contracts, product liability, customer claims, governmental investigations and other matters. Additionally, we are involved in a limited number of legal actions, both as plaintiff and defendant. Consequently, we could incur uninsured liability in any of those actions. We also periodically receive 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 we are a party and other claims, although the outcomes are generally not determinable, we believe that the ultimate resolution of these matters will not have a material adverse effect on our financial position, cash flows or results of operations. Litigation, governmental investigations and disputes relating to the semiconductor industry are not uncommon, and we are, 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.

We accrue for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, we review each of our matters and, where it is probable that a liability has been or will be incurred, we accrue for all probable and reasonably estimable losses. Where we can reasonably estimate a range of losses we may incur regarding such a matter, we record an accrual for the amount within the range that constitutes our best estimate. If we can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, we use the amount that is the low end of such range. Contingencies of an acquired company that exist as of the date of the acquisition are measured at fair value if determinable, which generally is based on a probability weighted model. If fair value is not determinable, contingencies of an acquired company are recognized when they become probable and reasonably estimable.

### **Results of Operations**

The following table sets forth certain data as a percentage of net sales for fiscal 2021 and fiscal 2020:

	Fiscal Year Ended March 31,	
	2021	2020
Net sales	100.0 %	100.0 %
Cost of sales	37.9	38.5
Gross profit	62.1	61.5
Research and development	15.4	16.6
Selling, general and administrative	11.2	12.8
Amortization of acquired intangible assets	17.1	18.9
Special charges and other, net	—	0.9
Operating income	18.4 %	12.3 %

### *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 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 in the form of letters of credit.

The following table summarizes our net sales for fiscal 2021 and fiscal 2020 (dollars in millions):

	Fiscal Year Ended March 31,		
	2021	2020	Change
Net sales	\$ 5,438.4	\$ 5,274.2	3.1 %



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The increase in net sales in fiscal 2021 compared to fiscal 2020 was primarily due to strength in our microcontroller product line. The net sales value of inventory at our distributor customers decreased \$10.4 million during fiscal 2021 compared to a decrease of \$68.2 million during fiscal 2020. Excluding the impact of changes in distributor inventory levels on net sales, net sales increased by 2.0% in fiscal 2021 compared to fiscal 2020 and was positively impacted by strength in our microcontroller product line. Due to the size, complexity and diversity of our customer base, we are not able to quantify any material factor contributing to the change other than net demand fluctuations in the end markets that we serve.

Other factors that we believe contributed to changes in our reported net sales for fiscal 2021 compared to fiscal 2020 and which are drivers of long-term trends in our net sales but which factors we are not able to quantify include:

- semiconductor industry conditions;
- our various new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions; and
- increasing semiconductor content in our customers' products through our Total Systems Solutions.

We sell a large number of products to a large and diverse customer base and there was not any single product or customer that accounted for a material portion of the change in our net sales in fiscal 2021 or fiscal 2020. 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. Generally, selling prices of our products increased during fiscal 2021 compared to fiscal 2020 due to increased material costs and increased functionality of products.

Net sales by product line for fiscal 2021 and 2020 were as follows (dollars in millions):

	Fiscal Year Ended March 31,			
	2021	%	2020	%
Microcontrollers	\$ 2,961.0	54.5	\$ 2,817.9	53.4
Analog	1,519.8	27.9	1,511.1	28.7
Other	957.6	17.6	945.2	17.9
Total net sales	\$ 5,438.4	100.0	\$ 5,274.2	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 54.5% and 53.4% of our net sales in fiscal 2021 and fiscal 2020, respectively.

Net sales of our microcontroller products increased approximately 5.1% in fiscal 2021 compared to fiscal 2020. The increase in net sales was due primarily to strength in demand for our microcontroller products in end markets that we serve.

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

Our analog product line includes analog, interface, mixed signal and timing products. Our analog product line accounted for approximately 27.9% and 28.7% of our net sales in fiscal 2021 and fiscal 2020, respectively.

Net sales from our analog product line increased approximately 0.6% in fiscal 2021 compared to fiscal 2020. The increase in net sales was primarily due to strength in demand for our analog products in end markets that we serve, partially offset by adverse general economic conditions and the impact of the COVID-19 pandemic.

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We consider a majority of the products in our analog product line 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 product line 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 product line as a result of increased pricing pressure in the future, which would adversely affect our operating results.

### Other

Our other product line includes FPGA products, royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, fees for engineering services, memory products, timing systems, 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 17.6% and 17.9% of our net sales in fiscal 2021 and fiscal 2020, respectively.

Net sales related to these products and services increased approximately 1.3% in fiscal 2021 compared to fiscal 2020. Net sales of our other product line can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our FPGA products, licenses, engineering services, memory products, and manufacturing services (wafer foundry and assembly and test subcontracting).

### Distribution

Distributors accounted for approximately 50% of our net sales in each of fiscal 2021 and fiscal 2020. With the exception of Arrow Electronics, our largest distributor, which represented 10% of our net sales in fiscal 2020, no other distributor or end customer accounted for more than 10% of our net sales in fiscal 2021 or fiscal 2020. 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.

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 March 31, 2021, our distributors maintained 22 days of inventory of our products compared to 29 days at March 31, 2020. Over the past ten fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 22 days and 47 days. Our distributor inventory days were at historic lows due to the imbalance between the supply of and the demand for our products in the current supply-constrained environment.

### Sales by Geography

Sales by geography for fiscal 2021 and 2020 were as follows (dollars in millions):

	Fiscal Year Ended March 31,			
	2021	%	2020	%
Americas	\$ 1,389.1	25.5	\$ 1,365.0	25.9
Europe	1,042.9	19.2	1,163.1	22.1
Asia	3,006.4	55.3	2,746.1	52.0
Total net sales	\$ 5,438.4	100.0	\$ 5,274.2	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 77% and 78% of our net sales in fiscal 2021 and fiscal 2020, respectively. Substantially all of our foreign sales are U.S. dollar denominated. In fiscal 2021, the COVID-19 pandemic and the responses to it significantly affected our net sales by geography. Sales to customers in Europe as a percentage of total sales decreased in fiscal 2021 compared to fiscal 2020 primarily due to high COVID-19 infection rates and extensive governmental restrictions, which constrained demand at various times during the fiscal year. High infection rates also constrained demand in the Americas at various times during fiscal 2021, however, less stringent governmental restrictions resulted in only a slight decrease in Americas sales as a percentage of total sales in fiscal 2021 compared to fiscal 2020. Sales to customers in Asia as a percentage of total sales increased significantly in fiscal 2021 compared to fiscal 2020 as the COVID-19 pandemic was largely under control in China and Taiwan in early fiscal 2021 and China and Taiwan represent the highest percentage of our net sales.

in Asia. 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 fiscal 2021 was \$3.38 billion or 62.1% of net sales, compared to \$3.24 billion, or 61.5% of net sales, in fiscal 2020. The following table summarizes the material and primary drivers of our change in gross profit as a percentage of net sales, with the material factors discussed in more detail below the table (dollars in millions):

Gross Profit	%	
	of Net Sales	
\$ 3,242.1	61.5	Fiscal Year Ended March 31, 2020
98.0	—	Increase in semiconductor net sales at prior year gross margins and excluding the impact of other factors quantified in this table
17.6	0.3	Impact of unabsorbed capacity charges
9.6	0.1	Net impact of product mix and average costs per unit
6.0	0.1	Increase in net sales to licensing customers, which has no associated cost of sales
5.5	0.1	Net impact of excess and obsolete inventories
<u>\$ 3,378.8</u>	<u>62.1</u>	Fiscal Year Ended March 31, 2021

*Unabsorbed capacity charges* - 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. We consider normal capacity at Fab 2 and Fab 4 to be 90% to 95%. We consider normal capacity at Fab 5 to be 70% to 75%. During fiscal 2021, we operated at below normal capacity levels primarily due to adverse general economic conditions and uncertainty from the COVID-19 pandemic resulting in unabsorbed capacity charges of \$29.6 million, compared to unabsorbed capacity charges of \$47.2 million in fiscal 2020. We adjust our wafer fabrication and assembly and test capacity utilization as required to respond to actual and anticipated business and industry-related conditions. By the end of fiscal 2021, our manufacturing facilities were operating at or above normal capacity and we expect this to continue if the current supply constraints relative to demand continue through fiscal 2022.

*Net impact of product mix and average cost per unit* - The net impact of product mix and average cost per unit may fluctuate over time due to sales volumes of lower or higher margin products, changes in selling prices, and fluctuations in product costs. During fiscal 2021, product mix resulted in a decrease of \$9.6 million in cost of goods sold and an increase in gross profit compared to fiscal 2020.

Our overall inventory levels were \$665.0 million at March 31, 2021, compared to \$685.7 million at March 31, 2020. We maintained 112 days of inventory on our balance sheet at March 31, 2021 compared to 122 days of inventory at March 31, 2020. We expect our days of inventory levels at June 30, 2021 to be flat to down 5 days compared to the March 31, 2021 levels.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog, 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. We continue to transition products to more advanced process technologies to reduce future manufacturing costs.

During fiscal 2020, we announced our intention to re-purpose Fab 5 to manufacture discrete and specialty products in addition to a lower volume of a diversified set of standard products. In connection with these efforts, we reduced the clean room footprint and transferred certain higher volume products from Fab 5 to our 8-inch wafer fabrication facilities in Arizona and Oregon. During fiscal 2021 and fiscal 2020, we incurred \$8.0 million and \$18.0 million, respectively, in costs associated with these actions all of which have been recorded within the special charges and other, net line item in our statements of income. These restructuring efforts were substantially completed as of March 31, 2021, and we anticipate that these actions will result in significant cost savings over the next several years.

We operate assembly and test facilities in Thailand, the Philippines, and other locations throughout the world. During fiscal 2021, approximately 53% of our assembly requirements were performed in our internal assembly facilities, compared to approximately 45% during fiscal 2020. During fiscal 2021, approximately 57% of our test requirements were performed in our internal test facilities, compared to approximately 54% during fiscal 2020. The increases in the percentage of assembly and test operations that were performed internally in fiscal 2021 compared to fiscal 2020 are primarily due to our investments in

assembly and test equipment, which increased our internal capacity capabilities. 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 fiscal 2021 and fiscal 2020.

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 expenses for fiscal 2021 were \$836.4 million, or 15.4% of net sales, compared to \$877.8 million, or 16.6% of net sales, for fiscal 2020. 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 \$41.4 million, or 4.7%, for fiscal 2021 compared to fiscal 2020. The primary reason for the decrease in R&D expenses in fiscal 2021 compared to fiscal 2020 was due to management of discretionary spending, including reduced headcount costs due to reductions in compensation and travel expenses, in response to uncertainty surrounding the COVID-19 pandemic.

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 fiscal 2021 were \$610.3 million, or 11.2% of net sales, compared to \$676.6 million, or 12.8% of net sales, for fiscal 2020. Our goal is to continue to be more efficient with our selling, general and administrative expenses. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses as well as costs related to our direct sales force, CEMs and ESEs who work remotely from sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased \$66.3 million, or 9.8%, for fiscal 2021 compared to fiscal 2020. The primary reasons for the decrease in selling, general and administrative expenses were due to management of discretionary spending, including reduced headcount costs due to reductions in compensation and travel expenses, in response to uncertainty surrounding the COVID-19 pandemic as well as lower professional services and legal costs associated with our acquisitions and security remediation costs related to network compromises.

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 in fiscal 2021 was \$932.3 million compared to \$993.9 million in fiscal 2020. The primary reason for the decrease in acquired intangible asset amortization was lower amortization from our acquisition of Microsemi and from our prior acquisitions.

*Special Charges and Other, Net*

During fiscal 2021, we incurred special charges and other, net of \$1.7 million primarily related to the restructuring of our wafer fabrication operations partially offset by asset sales and other acquisition related activity. During fiscal 2020, we incurred special charges and other, net of \$46.7 million comprised primarily of restructuring charges of \$31.0 million and legal contingencies of \$15.7 million. Restructuring expenses incurred during fiscal 2021 and fiscal 2020 include \$15.0 million and \$18.0 million, respectively, related to the restructuring of our wafer fabrication operations. Other restructuring expenses incurred during fiscal 2021 and fiscal 2020 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 fiscal 2021 was \$1.7 million compared to \$2.8 million in fiscal 2020.

Interest expense in fiscal 2021 was \$356.9 million compared to \$497.3 million in fiscal 2020. The primary reason for the decrease in interest expense in fiscal 2021 compared to fiscal 2020 relates to the cumulative pay down of our debt and lower interest rates on our outstanding variable rate debt.

During fiscal 2021, we recognized losses of \$299.6 million related to the settlement of a portion of our outstanding 2015 Senior Convertible Debt, our 2017 Senior Convertible Debt, and our 2017 Junior Convertible Debt as well as the payment of all amounts outstanding under our Bridge Loan Facility, and our Term Loan Facility. During fiscal 2020, we recognized losses of \$5.4 million, consisting of \$2.0 million primarily related to the voluntary prepayment of a portion of the outstanding balance on our Term Loan Facility and \$3.4 million related to the settlement of \$615.0 million in principal of our 2015 Senior Convertible Debt. The net losses recognized on the settlement of our Convertible Debt are comprised of two components (i) the inducement loss, which is the excess of the fair value of the consideration provided to the holder over the fair value of the debt and (ii) the extinguishment loss or gain, which is the difference between the fair value of the debt component and the carrying value on the settlement date.

Other loss, net, in fiscal 2021 was \$3.8 million compared to other income, net of \$3.2 million in fiscal 2020. The primary reason for the change in other (loss) income, net during fiscal 2021 compared to fiscal 2020 related to foreign currency exchange rate fluctuations.

*Provision for Income Taxes*

Our provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. A comparison of our effective tax rates in fiscal 2021 and fiscal 2020 is not meaningful due to the amount of pre-tax income, and income tax benefits recorded during the period.

Our effective tax rate in fiscal 2021 includes a \$48.4 million tax benefit received from current year generated R&D credits, which reduced our effective tax rate by 14.3%; a \$12.3 million tax benefit for share-based compensation deductions, which reduced our effective tax rate by 3.6%; a \$4.4 million tax benefit related to audit closures and expirations of statute of limitations on various tax reserves, which reduced our effective tax rate by 1.3%; a \$101.8 million tax expense for global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII), net of credits, which increased our effective tax rate by 30.0%; a \$48.1 million tax benefit related to the settlement of convertible debt, which reduced our effective tax rate by 14.2%; and a \$63.8 million tax benefit related to intra-group transfers of certain intellectual property rights, which reduced our effective tax rate by 18.8%. The tax benefit for the intra-group asset transfers primarily consisted of \$155.5 million recorded as a deferred tax asset which represents the book and tax basis difference on the transferred assets measured based on the new applicable statutory tax rate, as well as, the reversal of the pre-existing deferred tax asset of \$90.3 million, which represents the book and tax basis difference on the transferred assets measured based on the applicable statutory tax rate prior to the transfer. Over the next 15 years, we expect to be able to realize the future tax benefit of the deferred tax assets resulting from the intra-group asset transfers. It is not uncommon for taxing authorities of different countries to have conflicting views, for instance, with respect to, among other things, the manner in which the arm's length standard is applied with respect to the valuation of intellectual property rights. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing the intellectual property rights transferred, which could increase our future effective income tax rate and harm our future results of operations.

Our effective tax rate in fiscal 2020 includes a \$40.8 million tax benefit received from current year generated R&D credits, which reduced our effective tax rate by 27.2%; an \$11.1 million tax benefit for share-based compensation deductions, which reduced our effective tax rate by 7.4%; a \$28.5 million tax benefit related to audit closures and expirations of the statute of

limitations on various tax reserves, which reduced our effective tax rate by 19.0%; a \$54.7 million tax expense for GILTI and FDII, net of credits, which increased our effective tax rate by 36.4%; and a \$334.8 million tax benefit related to intra-group transfers of certain intellectual property rights, which reduced our effective tax rate by 222.9%. The tax benefit for the intra-group asset transfers primarily consisted of \$78.0 million recorded as a deferred tax asset which represents the book and tax basis difference on the transferred assets measured based on the new applicable statutory tax rate, as well as, the reversal of the pre-existing deferred tax liability of \$259.9 million, which represents the book and tax basis difference on the transferred assets measured based on the applicable statutory tax rate prior to the transfer.

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 in each of fiscal 2021 and fiscal 2020 was approximately 22%. Our non-U.S. blended statutory tax rates in fiscal 2021 and fiscal 2020 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 foreign tax rate differential benefit primarily relates to our operations and assets 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. 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.

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 U.S. 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.

In July 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. In the July 2015 ruling, the Tax Court concluded that the sharing of the cost of employee stock compensation in a company's cost-sharing arrangement was invalid under the U.S. Administrative Procedures Act. In June 2019, a panel of the Ninth Circuit of the U.S. Court of Appeals reversed this decision. In July 2019, Altera petitioned U.S. Court of Appeals for the Ninth Circuit to hold an en banc rehearing of the case. In November 2019, the en banc rehearing petition was denied, and Altera asked the U.S. Supreme Court for a judicial review. In June 2020, the U.S. Supreme Court declined to issue a writ of certiorari in *Altera v Commissioner*, leaving intact the decision reached by the Ninth Circuit of the U.S. Court of Appeals. Based on the Ninth Circuit Opinion, we recorded a cumulative income tax expense of \$23.3 million in fiscal 2021.

## Liquidity and Capital Resources

We had \$282.0 million in cash, cash equivalents and short-term investments at March 31, 2021, a decrease of \$121.0 million from the March 31, 2020 balance.

Net cash provided by operating activities was \$1.92 billion for fiscal 2021 compared to \$1.54 billion for fiscal 2020. The increase in net cash provided by operating activities in fiscal 2021 compared to fiscal 2020 was primarily due to efforts focused on working capital and discretionary spending management.

Net cash used in investing activities was \$173.3 million for fiscal 2021 compared to \$133.2 million for fiscal 2020. Fiscal 2021 and fiscal 2020 investing cash flows primarily related to capital purchases and investments in other assets.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were \$92.6 million and \$67.6 million in fiscal 2021 and fiscal 2020, respectively. Capital expenditures, which were comparatively lower in fiscal 2020 and through the first half of fiscal 2021, related primarily to the expansion of production capacity and the addition of research and development equipment. Towards the second half of fiscal 2021 we started to invest more significantly to expand manufacturing capacity in response to supply constraints relative to current demand levels and we expect this to continue in fiscal 2022. We currently intend to invest between \$225 million and \$275 million in equipment and facilities during the next twelve months. 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 \$1.86 billion for fiscal 2021 compared to net cash used in financing activities of \$1.44 billion for fiscal 2020. Significant transactions affecting our net financing cash flows include:

- in fiscal 2021, \$1.41 billion of cash used to pay down certain principal of our debt, including our Revolving Credit Facility, Term Loan Facility and Bridge Loan Facility, and the cash portion of the settlement of our 2015 Senior Convertible Debt, our 2017 Senior Convertible Debt, and our 2017 Junior Convertible Debt, partially funded by the issuance of our senior notes,
- in fiscal 2020, \$1.07 billion of cash used to pay down certain principal of our debt, including our Revolving Credit Facility, our Term Loan Facility and the cash portion of the settlement of our 2015 Senior Convertible Debt, partially funded by term loans made under the Bridge Loan Facility, and
- in fiscal 2021 and fiscal 2020, we paid cash dividends to our stockholders of \$388.3 million and \$350.1 million, respectively.

In March 2020 and 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 and amend certain negative covenants, including covenants that restrict our and our subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens and enter into certain restrictive agreements. The amendments also allow us the option to factor receivables and certain related assets. The amendments lowered the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion. The revolving loan commitments terminate in May 2023 and 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.

As of March 31, 2021, the principal amount of our outstanding indebtedness was \$9.21 billion. At March 31, 2021, we had \$2.35 billion of outstanding borrowings under the Revolving Credit Facility compared to \$2.39 billion at March 31, 2020. During fiscal 2021, we used borrowings under our Revolving Credit Facility and proceeds from the issuance of our 0.972% 2024 Notes to repay all amounts outstanding under our Term Loan Facility. See Note 7 of the notes to our consolidated financial statements for more information regarding our contractual obligations related to our long-term debt.

The enactment of the TCJA 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. During fiscal 2018, we recognized a one-time transition tax on accumulated unrepatriated foreign earnings, of which we expected cash payments of approximately \$290.3 million. This tax is payable over a period of eight years, with 8% of the transition tax payable each year for fiscal 2019 through fiscal 2023, and 15%, 20%, and 25%,

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respectively, payable during fiscal 2024, fiscal 2025, and fiscal 2026. As of March 31, 2021, our transition tax payable was \$220.6 million, of which \$23.2 million is payable within the next 12 months.

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 March 31, 2021, we had no foreign currency forward contracts outstanding.

There were no repurchases of common stock in fiscal 2021 and fiscal 2020. As of March 31, 2021, we held approximately 11.0 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. To date, our cumulative dividend payments have totaled approximately \$4.5 billion. Cash dividends paid per share were \$1.494 and \$1.465 during fiscal 2021 and fiscal 2020, respectively. Total dividend payments amounted to \$388.3 million and \$350.1 million during fiscal 2021 and fiscal 2020, respectively. A quarterly dividend of \$0.413 per share was declared on May 6, 2021 and will be paid on June 4, 2021 to stockholders of record as of May 21, 2021. We expect the aggregate cash dividend for the June 2021 quarter to be approximately \$113.0 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, demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. We may from time to time seek to refinance certain of our outstanding notes or Convertible Debt through issuances of new notes or convertible debt, tender offers, exchange transactions or open market repurchases. Such issuances, tender offers or exchanges or purchases, if any, will depend on prevailing market conditions, our ability to negotiate acceptable terms, our liquidity position and other factors. There can be no assurance that any financing will be available on acceptable terms due to uncertainties resulting from the COVID-19 pandemic or other factors, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

### **Recently Issued Accounting Pronouncements**

Refer to Note 1 to our consolidated financial statements regarding recently issued accounting pronouncements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As of March 31, 2021, our long-term debt totaled \$9.21 billion. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$6.86 billion as of March 31, 2021. We do have interest rate exposure with respect to the \$2.35 billion of our variable interest rate debt outstanding as of March 31, 2021. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next 12 months by approximately \$11.7 million.

### **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements listed in the index appearing under Item 15(a)(1) hereof are filed as part of this Form 10-K. See also Index to Financial Statements below.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.



## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under 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 our disclosure controls and procedures were 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 SEC 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.

### **Management Report on Internal Control Over Financial Reporting**

Our management, including our principal executive officer and our principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of March 31, 2021, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

Ernst & Young LLP, an independent registered public accounting firm, who audited our consolidated financial statements included in this Form 10-K has issued an attestation report on our internal control over financial reporting as of March 31, 2021, which is included on page F-5.

### **Changes in Internal Control over Financial Reporting**

During the three months ended March 31, 2021, 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 calendar year 2021. Other than with respect to our transition of Microsemi to our systems and control environment as described above, during the three months ended March 31, 2021, 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.

**Item 9B. Other Information**

J. Eric Bjornholt, our Senior Vice President, Chief Financial Officer, Mitch Little, our Senior Vice President, Worldwide Client Engagement, Steve Drehobl, our Senior Vice President, MCU8 and MCU16 Business Units, Rich Simoncic, our Senior Vice President, Analog Power and Interface Business Units, Esther Johnson, our Board Member, L.B. Day, our Board Member, and Matthew W. Chapman, our Board Member, have entered into trading plans as contemplated by Rule 10b-5-1 under the Exchange Act and periodic sales of our common stock have occurred and are expected to occur under such plans.

The foregoing disclosure is being made on a voluntary basis and not pursuant to any specific requirement under Form 10-K, Form 8-K or otherwise.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Information on the members of our Board of Directors is incorporated herein by reference to our proxy statement for our 2021 annual meeting of stockholders under the captions "The Board of Directors," and "Proposal One – Election of Directors."

Information on the composition of our audit committee and the members of our audit committee, including information on our audit committee financial experts, is incorporated by reference to our proxy statement for our 2021 annual meeting of stockholders under the caption "The Board of Directors – Committees of the Board of Directors – Audit Committee."

Information on our executive officers is provided in Item 1, Part I of this Form 10-K under the caption "Executive Officers of the Registrant" at page 11, above.

Information with respect to our code of ethics that applies to our directors, executive officers (including our principal executive officer and our principal financial and accounting officer) and employees is incorporated by reference to our proxy statement for our 2021 annual meeting of stockholders under the caption "Code of Business Conduct and Ethics." A copy of our Code of Business Conduct and Ethics is available on our website at the Investor Relations section under Mission Statement/Corporate Governance on [www.microchip.com](http://www.microchip.com).

Information regarding material changes, if any, to procedures by which security holders may recommend nominees to our Board of Directors is incorporated by reference to our proxy statement for the 2021 annual meeting of stockholders under the caption "Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2021 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals."

**Item 11. Executive Compensation**

Information with respect to executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation" in our proxy statement for our 2021 annual meeting of stockholders.

Information with respect to director compensation is incorporated herein by reference to the information under the caption "The Board of Directors – Director Compensation" in our proxy statement for our 2021 annual meeting of stockholders.

Information with respect to compensation committee interlocks and insider participation in compensation decisions is incorporated herein by reference to the information under the caption "The Board of Directors – Compensation Committee Interlocks and Insider Participation" in our proxy statement for our 2021 annual meeting of stockholders.

Our Board compensation committee report on executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation – Compensation Committee Report on Executive Compensation" in our proxy statement for our 2021 annual meeting of stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information under the caption "Executive Compensation – Equity Compensation Plan Information" in our proxy statement for our 2021 annual meeting of stockholders.

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Information with respect to security ownership of certain beneficial owners, members of our Board of Directors and management is incorporated herein by reference to the information under the caption "Security Ownership of Principal Stockholders, Directors and Executive Officers" in our proxy statement for our 2021 annual meeting of stockholders.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item pursuant to Item 404 of Regulation S-K is incorporated by reference to the information under the caption "Certain Transactions" contained in our proxy statement for our 2021 annual meeting of stockholders.

The information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of our directors is incorporated by reference to the information under the caption "Meetings of the Board of Directors" contained in our proxy statement for our 2021 annual meeting of stockholders.

### **Item 14. Principal Accountant Fees and Services**

The information required by this Item related to principal accountant fees and services as well as related pre-approval policies is incorporated by reference to the information under the caption "Independent Registered Public Accounting Firm" contained in our proxy statement for our 2021 annual meeting of stockholders.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules**

- (a) The following documents are filed as part of this Form 10-K:

	<u>Page</u>
(1) Financial Statements:	
Report of Independent Registered Public Accounting Firm	<a href="#">F-1</a>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<a href="#">F-5</a>
Consolidated Balance Sheets as of March 31, 2021 and 2020	<a href="#">F-6</a>
Consolidated Statements of Income for each of the three years in the period ended March 31, 2021	<a href="#">F-7</a>
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2021	<a href="#">F-8</a>
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2021	<a href="#">F-9</a>
Consolidated Statements of Changes in Equity for each of the three years in the period ended March 31, 2021	<a href="#">F-11</a>
Notes to Consolidated Financial Statements	<a href="#">F-12</a>
(2) Financial Statement Schedules	None
(3) The Exhibits filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index beginning on page 51 hereof, which Exhibit Index is incorporated herein by this reference.	

- (b) See Item 15(a)(3) above.

- (c) See "Index to Financial Statements" included under Item 8 to this Form 10-K.

### **Item 16. Form 10-K Summary**

Not applicable.

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
2.1	<a href="#">Agreement and Plan of Merger, dated as of March 1, 2018, by and among Microchip Technology Incorporated, Microsemi Corporation, and Maple Acquisition Corporation</a>	8-K	000-21184	2.1	March 2, 2018	
3.1	<a href="#">Restated Certificate of Incorporation of Registrant</a>	10-Q	000-21184	3.1	November 12, 2002	
3.2**	<a href="#">Amended and Restated Bylaws of Registrant, as amended February 26, 2021</a>					X
4.1	<a href="#">Indenture dated as of February 11, 2015 between Microchip Technology Incorporated and Wells Fargo Bank, N.A.</a>	8-K	000-21184	4.1	February 11, 2015	
4.2	<a href="#">Indenture dated as of February 15, 2017 between Microchip Technology Incorporated and Wells Fargo Bank, National Association</a>	8-K	000-21184	4.1	February 15, 2017	
4.3	<a href="#">Indenture dated as of February 15, 2017 between Microchip Technology Incorporated and Wells Fargo Bank, National Association</a>	8-K	000-21184	4.3	February 15, 2017	
4.4	<a href="#">Description of Registered Securities</a>	10-K	000-21184	4.4	May 22, 2020	
4.5	<a href="#">Senior Secured Notes Indenture, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee and collateral agent</a>	8-K	000-21184	4.1	June 3, 2020	
4.6	<a href="#">Senior Notes Indenture, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee</a>	8-K	000-21184	4.2	June 3, 2020	
4.7	<a href="#">Form of 2.670% Senior Secured Note due 2023 (included in Exhibit 4.1 of 8-K filed on June 3, 2020)</a>	8-K	000-21184	4.3	June 3, 2020	
4.8	<a href="#">Form of 4.250% Senior Note due 2025 (included in Exhibit 4.2 of 8-K filed on June 3, 2020)</a>	8-K	000-21184	4.4	June 3, 2020	
4.9	<a href="#">Indenture, dated as of December 1, 2020, between Microchip Technology Incorporated and Wells Fargo Bank, National Association, as trustee</a>	8-K	000-21184	4.1	December 2, 2020	
4.10	<a href="#">Form of 0.125% Convertible Senior Note due 2024 (included in Exhibit 4.1 of the 8-K filed on December 2, 2020)</a>	8-K	000-21184	4.2	December 2, 2020	
4.11	<a href="#">Senior Secured Notes Indenture, dated as of December 17, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee and collateral agent</a>	8-K	000-21184	4.1	December 18, 2020	

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
4.12	<a href="#">Form of 0.972% Senior Secured Note due 2024 (included in Exhibit 4.1 of the 8-K filed on December 18, 2020)</a>	8-K	000-21184	4.2	December 18, 2020	
10.1	<a href="#">Form of Capped Call Confirmation</a>	8-K	000-21184	10.2	November 20, 2020	
10.2	<a href="#">Augmenting Lender Supplement, dated as of November 10, 2017, among Microchip Technology Incorporated, the lender party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.1	November 13, 2017	
10.3	<a href="#">Master Increasing Lender Supplement, dated as of September 1, 2017, among Microchip Technology Incorporated, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.1	September 1, 2017	
10.4	<a href="#">Master Increasing Lender Supplement dated as of March 19, 2015, by and among Microchip Technology Incorporated and the Increasing Lenders thereto</a>	10-K	000-21184	10.1	May 27, 2015	
10.5	<a href="#">Amended and Restated Credit Agreement, dated as of May 29, 2018, by and among Microchip Technology Incorporated, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.1	May 29, 2018	
10.6	<a href="#">Amendment No. 1 to Amended and Restated Credit Agreement, dated as of September 26, 2019, among Microchip Technology Incorporated, the Subsidiary Guarantors party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.1	October 1, 2019	
10.7	<a href="#">Second Amendment to Amended and Restated Credit Agreement, dated as of March 21, 2020</a>	8-K	000-21184	10.1	March 24, 2020	
10.8	<a href="#">Pledge and Security Agreement, dated as of February 8, 2017, by and among Microchip Technology Incorporated, the other grantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.2	February 8, 2017	
10.9	<a href="#">Amended and Restated Pledge and Security Agreement, dated as of May 29, 2018, by and among Microchip Technology Incorporated, the other grantors party thereto and JPMorgan Chase Bank, N.A., as administrative agent</a>	8-K	000-21184	10.2	May 29, 2018	
10.10	<a href="#">Pledge and Security Agreement, dated as of March 27, 2020, by and among Microchip Technology Incorporated, the other grantors from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent</a>	8-K	000-21184	10.2	March 27, 2020	

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
10.11	<a href="#">Pledge and Security Agreement, dated as of December 17, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as collateral agent</a>	8-K	000-21184	10.1	December 18, 2020	
10.12	<a href="#">Amended and Restated Guaranty, dated as of May 29, 2018, made by the subsidiaries of Microchip Technology, Incorporated party thereto as guarantors in favor of JPMorgan Chase Bank, N.A., as Administrative Agent</a>	8-K	000-21184	10.3	May 29, 2018	
10.13	Form of Indemnification Agreement between Registrant and its directors and certain of its officers [Paper filing not on SEC website]	S-1	33-57960	10.1	February 5, 1993	
10.14	<a href="#">Microchip Technology Incorporated 2012 Inducement Award Plan</a>	S-8	333-183074	4.8	August 3, 2012	
10.15*	<a href="#">2004 Equity Incentive Plan as Amended and Restated on April 1, 2021</a>	8-K	000-21184	10.1	April 7, 2021	
10.16*	<a href="#">Form of Notice of Grant of Restricted Stock Units (officer) for 2004 Equity Incentive Plan</a>	S-8	333-192273	10.2	November 12, 2013	
10.17*	<a href="#">Form of Notice of Grant of Restricted Stock Units (non-officer) for 2004 Equity Incentive Plan</a>	S-8	333-192273	10.3	November 12, 2013	
10.18*	<a href="#">Form of Notice of Grant for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement)</a>	S-8	333-119939	4.5	October 25, 2004	
10.19*	<a href="#">Form of Notice of Grant of Restricted Stock Units for 2004 Equity Incentive Plan (including Exhibit A Restricted Stock Units Agreement)</a>	10-K	000-21184	10.6	May 31, 2006	
10.20*	<a href="#">Restricted Stock Units Agreement (Domestic) for 2004 Equity Incentive Plan</a>	10-Q	000-21184	10.3	November 7, 2007	
10.21*	<a href="#">Restricted Stock Units Agreement (Foreign) for 2004 Equity Incentive Plan</a>	10-Q	000-21184	10.4	November 7, 2007	
10.22*	<a href="#">Form of Global RSU Agreement for 2004 Equity Incentive Plan (including Notice of Grant of Restricted Stock Units)</a>	8-K	000-21184	10.1	September 27, 2010	
10.23*	<a href="#">Form of RSU Grant Notice and Global RSU Agreement V-4004</a>	10-K	000-21184	10.17	May 30, 2019	
10.24*	<a href="#">Form of Notice of Stock Option Grant and Stock Option Agreement</a>	10-K	000-21184	10.18	May 30, 2019	
10.25*	<a href="#">Form of CEO RSU Grant and RSU Agreement</a>	10-K	000-21184	10.19	May 30, 2019	
10.26*	<a href="#">Form of Notice of Grant of RSU Agreement</a>	10-K	000-21184	10.20	May 30, 2019	
10.27*	<a href="#">Notice of Grant of Restricted Stock Units (TSR)</a>	8-K	000-21184	10.1	January 7, 2020	
10.28*	<a href="#">Microchip Technology Incorporated 2001 Employee Stock Purchase Plan as amended through February 19, 2019</a>	10-K	000-21184	10.21	May 30, 2019	

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
10.29*	<a href="#">Microchip Technology Incorporated International Employee Stock Purchase Plan as amended May 6, 2019</a>	10-K	000-21184	10.22	May 30, 2019	
10.30*	<a href="#">Executive Management Incentive Compensation Plan as amended on May 16, 2016</a>	8-K	000-21184	10.1	August 18, 2016	
10.31*	<a href="#">Discretionary Executive Management Incentive Compensation Plan</a>	8-K	000-21184	10.3	August 24, 2006	
10.32*	<a href="#">Management Incentive Compensation Plan (as amended through February 26, 2021)</a>	8-K	000-21184	10.1	March 2, 2021	
10.33*	<a href="#">Microchip Technology Incorporated Supplemental Retirement Plan</a>	S-8	333-101696	4.1.1	December 6, 2002	
10.34*	<a href="#">Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated January 1, 1997</a>	S-8	333-101696	4.1.3	December 6, 2002	
10.35*	<a href="#">Amendment dated December 9, 1999 to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan</a>	S-8	333-101696	4.1.4	December 6, 2002	
10.36*	<a href="#">February 3, 2003 Amendment to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan</a>	10-K	000-21184	10.28	June 5, 2003	
10.37*	<a href="#">Amendments to Supplemental Retirement Plan</a>	10-Q	000-21184	10.1	February 9, 2006	
10.38*	<a href="#">Amended and Restated Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated October 8, 2008, as amended December 15, 2008</a>	10-K	000-21184	10.28	May 24, 2016	
10.39*	<a href="#">Change of Control Severance Agreement</a>	8-K	000-21184	10.1	December 18, 2008	
10.40*	<a href="#">Change of Control Severance Agreement</a>	8-K	000-21184	10.2	December 18, 2008	
10.41	<a href="#">Development Agreement dated as of August 29, 1997 by and between Registrant and the City of Chandler, Arizona</a>	10-Q	000-21184	10.1	February 13, 1998	
10.42	<a href="#">Addendum to Development Agreement by and between Registrant and the City of Tempe, Arizona, dated May 11, 2000</a>	10-K	000-21184	10.14	May 15, 2001	
10.43	<a href="#">Development Agreement dated as of July 17, 1997 by and between Registrant and the City of Tempe, Arizona</a>	10-Q	000-21184	10.2	February 13, 1998	
10.44	<a href="#">Pledge and Security Agreement, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as collateral agent</a>	8-K	000-21184	10.1	June 3, 2020	
21.1**	<a href="#">Subsidiaries of Registrant</a>					X
23.1**	<a href="#">Consent of Independent Registered Public Accounting Firm</a>					X

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Included Herewith
		Form	File Number	Exhibit	Filing Date	
24.1**	<a href="#">Power of Attorney included on Page 57 of this Form 10-K</a>					X
31.1**	<a href="#">Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)</a>					X
31.2**	<a href="#">Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)</a>					X
32**	<a href="#">Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.					X
	*Compensation plans or arrangements in which directors or executive officers are eligible to participate					
	** Furnished herewith					



**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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**  
(Registrant)

May 17, 2021

By: /s/ Ganesh Moorthy  
Ganesh Moorthy  
President, Chief Executive Officer, and Director

**Power of Attorney**

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned officer or director of Microchip Technology Incorporated, a Delaware corporation (the Company), does hereby constitute and appoint each of GANESH MOORTHY and J. ERIC BJORNHOLT, with full power to each of them to act alone, as the true and lawful attorneys and agents of the undersigned, with full power of substitution and resubstitution to each of said attorneys to execute, file or deliver any and all instruments and to do any and all acts and things which said attorneys and agents, or any of them, deem advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereto relating to this annual report on Form 10-K, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign such person's name individually and on behalf of the Company as an officer or director (as indicated below opposite such person's signature) to the Company's annual report on Form 10-K or any amendments or supplements thereto; and each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents or any of them, shall do or cause to be done by virtue hereof. This Power of Attorney revokes any and all previous powers of attorney granted by any of the undersigned which such power would have entitled said attorneys and agents, or any of them, to sign such person's name, individually or on behalf of the Company, to any Form 10-K.

IN WITNESS WHEREOF, each of the undersigned has executed the foregoing power of attorney on this 17th day of May, 2021.



Annual Report on Form 10-K

Item 8, Item 15(a)(1) and (2), (b) and (c)

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INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

EXHIBITS

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YEAR ENDED MARCH 31, 2021

MICROCHIP TECHNOLOGY INCORPORATED  
AND SUBSIDIARIES

CHANDLER, ARIZONA

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**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Microchip Technology Incorporated

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Microchip Technology Incorporated (the Company) as of March 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 17, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Estimating variable consideration for distributor sales*

*Description of the Matter*

The Company's sales arrangements provide certain distributors with price concessions, which results in variable consideration. During the year ended March 31, 2021, approximately \$2,737.4 million of the Company's total \$5,438.4 million in net sales represents sales to distributors, which has been adjusted for estimates of the price concessions that are expected to be claimed. As explained in Note 1 to the consolidated financial statements, the Company estimates the amount of consideration to which it will be entitled using recent, observable experience from the prior quarter and applying the expected value method. The Company records a reduction of the original sale amount for the estimated variable consideration resulting from price concessions. At March 31, 2021, such reserves totaled \$350.7 million.

Auditing management's estimates of variable consideration resulting from price concessions under the distributor contracts involved subjective auditor judgment because the estimates rely on a number of factors that could be affected by future economic and market conditions. The estimated concession rates are made using recent, observable experience from the prior quarter. The concession rates are evaluated to determine whether adjustments are needed for changes in pricing terms and economic and market conditions. Changes in those assumptions can have a material effect on the amount of variable consideration recognized.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's process to calculate the variable consideration resulting from price concessions, including management's assessment of the price concession assumptions and data underlying the estimate.

Our audit procedures included, among others, evaluating the significant assumptions and the accuracy and completeness of the underlying data used in management's estimate. This included comparing management's accrual for future price concessions at a disaggregated level to historical results and testing the value of the inventory held by distributors at the end of the period through confirmations with the distributors. We confirmed contractual terms and conditions directly with a selection of distributor customers. We evaluated whether recent, observable experience from the prior quarter is a reasonable approximation for expected future concessions in consideration of the current contractual terms and economic and market conditions. In addition, we assessed the historical accuracy of management's estimates for variable consideration resulting from price concessions and the related assumptions by performing a retrospective review on the accuracy of prior period estimates.

***Unrecognized tax benefits***

*Description of the Matter*

As more fully described in Note 13 to the consolidated financial statements, the Company operates in a number of tax jurisdictions and its income tax returns are subject to examination by tax authorities in those jurisdictions that may challenge any tax position on these returns. Because the matters challenged by authorities are typically complex and subject to interpretation, their ultimate outcome is uncertain. The Company uses significant judgment in (1) determining whether a tax position's technical merits are more-likely-than-not to be sustained, and (2) measuring the amount of tax benefit that qualifies for recognition. As of March 31, 2021, the Company recognized accrued liabilities for unrecognized tax benefits associated with various tax positions totaling \$826.3 million.

Because of the complexity of tax laws and regulations, auditing the recognition and measurement of unrecognized tax benefits requires a high degree of auditor judgment and increased extent of effort, including the involvement of our tax professionals.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's accounting process for unrecognized tax benefits. This included testing controls over management's review of the technical merits of tax positions, including the process to measure the financial statement impact of these tax matters.

Our audit procedures included, among others, evaluating the assumptions the Company used to develop its tax positions and related unrecognized tax benefit amounts by jurisdiction and testing the completeness and accuracy of the underlying data used by the Company to calculate its uncertain tax positions. We involved our tax professionals located in the respective jurisdictions to assess the technical merits of the Company's tax positions and to evaluate the application of relevant tax laws in the Company's recognition determination. We assessed the Company's correspondence with the relevant tax authorities and evaluated tax or legal opinions or other third-party advice obtained by the Company. We also evaluated the adequacy of the Company's disclosures included in Note 13 in relation to these tax matters.



***Convertible debt transactions***

*Description of the Matter* As described in Note 7 to the consolidated financial statements, the Company privately negotiated several transactions to settle an aggregate of (1) \$968.6 million principal amount of its 2015 Senior Convertible Debt, (2) \$1,736.7 million principal amount of its 2017 Senior Convertible Debt and (3) \$563.7 million principal amount of its 2017 Junior Convertible Debt. Through these transactions the Company provided holders an aggregate of (1) \$2,611.4 million of cash, (2) 26.1 million shares of the Company's common stock and (3) \$665.5 million principal amount of its 2020 Senior Convertible Debt. The transactions were complex because the Company used significant judgment to estimate the current comparable borrowing rates for otherwise identical non-convertible debt instruments to determine the fair value of the liability components at each transaction date.

Auditing the valuation of the liability components was challenging because the Company used complex valuation methodologies and subjective assumptions, including the expected volatility and credit spread.

*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to estimate the fair value of the liability components of the convertible debt instruments, including controls over management's review of the valuation model and the significant assumptions used in the calculation.

Our audit procedures included, among others, inspecting the transaction agreements and involving our internal valuation specialist to assist in evaluating the reasonableness of valuation methodologies, models and significant assumptions. We also performed sensitivity analyses to evaluate the reasonableness of certain significant assumptions, including the current comparable borrowing rates. We tested the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. We also evaluated the Company's financial statement disclosures related to these matters included in Note 7 to the consolidated financial statements.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.  
Phoenix, Arizona  
May 17, 2021

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Microchip Technology Incorporated

### Opinion on Internal Control Over Financial Reporting

We have audited Microchip Technology Incorporated's internal control over financial reporting as of March 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Microchip Technology Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2021, and the related notes and our report dated May 17, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP  
Phoenix, Arizona  
May 17, 2021

**Item 1. Financial Statements**

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

	March 31,	
	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 280.0	\$ 401.0
Short-term investments	2.0	2.0
Accounts receivable, net	997.7	934.0
Inventories	665.0	685.7
Other current assets	200.5	194.5
Total current assets	2,145.2	2,217.2
Property, plant and equipment, net	854.7	876.1
Goodwill	6,670.6	6,664.8
Intangible assets, net	4,794.8	5,702.3
Long-term deferred tax assets	1,749.2	1,748.5
Other assets	264.3	217.2
Total assets	\$ 16,478.8	\$ 17,426.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 292.4	\$ 246.8
Accrued liabilities	794.3	781.8
Current portion of long-term debt	1,322.9	608.8
Total current liabilities	2,409.6	1,637.4
Long-term debt	7,581.2	8,873.4
Long-term income tax payable	689.9	668.4
Long-term deferred tax liability	43.9	318.5
Other long-term liabilities	417.1	342.9
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; 284,479,079 shares issued and 273,528,594 shares outstanding at March 31, 2021; 258,391,231 shares issued and 245,325,643 shares outstanding at March 31, 2020	0.3	0.2
Additional paid-in capital	2,403.3	2,675.1
Common stock held in treasury: 10,950,485 shares at March 31, 2021; 13,065,588 shares at March 31, 2020	(433.8)	(500.6)
Accumulated other comprehensive loss	(26.2)	(21.6)
Retained earnings	3,393.5	3,432.4
Total stockholders' equity	5,337.1	5,585.5
Total liabilities and stockholders' equity	\$ 16,478.8	\$ 17,426.1

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended March 31,		
	2021	2020	2019
Net sales	\$ 5,438.4	\$ 5,274.2	\$ 5,349.5
Cost of sales	2,059.6	2,032.1	2,418.2
Gross profit	3,378.8	3,242.1	2,931.3
Research and development	836.4	877.8	826.3
Selling, general and administrative	610.3	676.6	682.9
Amortization of acquired intangible assets	932.3	993.9	674.1
Special charges and other, net	1.7	46.7	33.7
Operating expenses	2,380.7	2,595.0	2,217.0
Operating income	998.1	647.1	714.3
Losses on equity method investments	—	—	(0.2)
Other income (expense):			
Interest income	1.7	2.8	8.1
Interest expense	(356.9)	(497.3)	(502.9)
Loss on settlement of debt	(299.6)	(5.4)	(12.6)
Other (loss) income, net	(3.8)	3.2	(2.2)
Income before income taxes	339.5	150.4	204.5
Income tax benefit	(9.9)	(420.2)	(151.4)
Net income	\$ 349.4	\$ 570.6	\$ 355.9
Basic net income per common share	\$ 1.35	\$ 2.39	\$ 1.51
Diluted net income per common share	\$ 1.29	\$ 2.23	\$ 1.42
Dividends declared per common share	\$ 1.494	\$ 1.465	\$ 1.457
Basic common shares outstanding	259.6	238.9	236.2
Diluted common shares outstanding	270.6	256.2	249.9

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	Fiscal Year Ended March 31,		
	2021	2020	2019
Net income	\$ 349.4	\$ 570.6	\$ 355.9
Components of other comprehensive (loss) income:			
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 effect	(9.4)	1.4	2.9
Reclassification of realized transactions, net of tax effect	1.1	0.8	1.0
Change in net foreign currency translation adjustment	3.7	(1.8)	(5.3)
Other comprehensive (loss) income, net of tax effect	(4.6)	0.4	(1.4)
Comprehensive income	<u>\$ 344.8</u>	<u>\$ 571.0</u>	<u>\$ 354.5</u>

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Fiscal Year Ended March 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income	\$ 349.4	\$ 570.6	\$ 355.9
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	1,153.3	1,215.6	876.4
Deferred income taxes	(138.9)	(490.3)	(62.2)
Share-based compensation expense related to equity incentive plans	198.3	170.2	166.4
Loss on settlement of debt	299.6	5.4	12.6
Amortization of debt discount	71.1	121.7	114.6
Amortization of debt issuance costs	17.1	17.1	16.5
Losses on equity method investments	—	—	0.2
Gains on sale of assets	(7.1)	(2.2)	—
Losses on write-down of fixed assets	0.9	2.7	0.8
Impairment of intangible assets	—	2.2	3.1
Gains on equity investments	(0.2)	(2.5)	—
Impairment of available-for-sale investments	—	—	6.0
Amortization of premium on available-for-sale investments	—	—	(0.2)
<b>Changes in operating assets and liabilities, excluding impact of acquisitions:</b>			
(Increase) decrease in accounts receivable	(63.7)	(53.3)	238.8
Decrease in inventories	18.4	28.8	341.6
Increase (decrease) in accounts payable and accrued liabilities	17.6	11.4	(180.7)
Change in other assets and liabilities	(16.7)	(13.1)	(24.2)
Change in income tax payable	17.4	(40.5)	(190.8)
<b>Net cash provided by operating activities</b>	<b>1,916.5</b>	<b>1,543.8</b>	<b>1,674.8</b>
<b>Cash flows from investing activities:</b>			
Purchases of available-for-sale investments	—	(2.0)	(167.7)
Maturities of available-for-sale investments	—	—	78.0
Sales of available-for-sale investments and marketable equity securities	—	4.7	1,376.6
Acquisition of Microsemi, net of cash acquired	—	—	(7,850.6)
Investments in other assets	(89.0)	(71.5)	(18.6)
Proceeds from sale of assets	8.3	3.2	0.2
Capital expenditures	(92.6)	(67.6)	(228.9)
<b>Net cash used in investing activities</b>	<b>(173.3)</b>	<b>(133.2)</b>	<b>(6,811.0)</b>
<b>Cash flows from financing activities: <sup>(1)</sup></b>			
Proceeds from borrowings on revolving loan under credit facility	3,966.0	1,026.0	4,416.5
Repayments of revolving loan under credit facility	(4,007.9)	(1,904.0)	(1,150.0)
Proceeds from issuance of senior notes	3,577.8	—	1,989.5
Proceeds from borrowings on bridge loan facility	—	611.9	—
Repayment of bridge loan facility	(615.0)	—	—
Proceeds from borrowings on term loan facility	—	—	3,000.0
Repayments of term loan facility	(1,723.5)	(188.0)	(1,088.5)
Payments on settlement of convertible debt	(2,611.4)	(615.0)	—
Repayment of debt assumed in Microsemi acquisition	—	—	(2,056.9)
Deferred financing costs	(21.2)	(8.9)	(72.7)
Purchase of capped call options	(35.8)	—	—
Payment of cash dividends	(388.3)	(350.1)	(344.4)
Proceeds from sale of common stock	60.3	58.8	42.6

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	Fiscal Year Ended March 31,		
	2021	2020	2019
Tax payments related to shares withheld for vested restricted stock units	(64.6)	(68.1)	(71.8)
Capital lease payments	(0.6)	(0.8)	(0.8)
Net cash (used in) provided by financing activities	(1,864.2)	(1,438.2)	4,663.5
Net decrease in cash and cash equivalents	(121.0)	(27.6)	(472.7)
Cash and cash equivalents, and restricted cash at beginning of period	401.0	428.6	901.3
Cash and cash equivalents, and restricted cash at end of period	\$ 280.0	\$ 401.0	\$ 428.6
Supplemental disclosure of cash flow information:			
Restricted cash	\$ —	\$ 25.0	\$ 38.4
Non-cash activities:			
ROU assets obtained in exchange of lease liabilities <sup>(2)</sup>	\$ 65.6	\$ 24.8	
Cash paid for:			
Interest	\$ 265.4	\$ 355.2	\$ 347.9
Income taxes	\$ 87.3	\$ 101.3	\$ 77.6
Operating lease payments in operating cash flows <sup>(2)</sup>	\$ 47.4	\$ 46.5	

<sup>(1)</sup> During the fiscal year ended March 31, 2021, the Company completed the December 2020 settlement of \$1,086.5 million principal amount of convertible debt in exchange for \$428.9 million in cash, 8.4 million shares of common stock and \$665.5 million principal amount of 2020 Senior Convertible Debt. Refer to Note 7 for further information.

<sup>(2)</sup> During the fiscal year ended March 31, 2020, the Company adopted Accounting Standards Codification Topic 842, *Leases*, using the retrospective cumulative effect adjustment transition method. The disclosures are not applicable for the fiscal year ended March 31, 2019.

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(in millions)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Loss	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	—	—	—	—	—	355.9	355.9
Other comprehensive loss	—	—	—	—	(1.4)	—	(1.4)
Adoption of ASU 2016-01, cumulative adjustment	—	—	—	—	(1.7)	1.7	—
Adoption of ASC 606, cumulative adjustment	—	—	—	—	—	242.0	242.0
Adoption of ASU 2016-16, cumulative adjustment	—	—	—	—	—	1,558.1	1,558.1
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	3.4	42.6	—	—	—	—	42.6
Restricted stock unit and stock appreciation right withholdings	(0.8)	(71.8)	—	—	—	—	(71.8)
Treasury stock used for new issuances	(2.6)	(80.4)	(2.6)	80.4	—	—	—
Share-based compensation	—	172.8	—	—	—	—	172.8
Cash dividend	—	—	—	—	—	(344.4)	(344.4)
Balance at March 31, 2019	253.2	2,679.8	15.6	(582.2)	(20.7)	3,210.6	5,287.5
Net income	—	—	—	—	—	570.6	570.6
Other comprehensive income	—	—	—	—	0.4	—	0.4
Adoption of ASU 2018-02, cumulative adjustment	—	—	—	—	(1.3)	1.3	—
Proceeds from sales of common stock through employee equity incentive plans	3.2	58.8	—	—	—	—	58.8
Restricted stock unit and stock appreciation right withholdings	(0.7)	(68.1)	—	—	—	—	(68.1)
Treasury stock used for new issuances	(2.5)	(81.6)	(2.5)	81.6	—	—	—
Shares issued to settle convertible debt	5.2	351.8	—	—	—	—	351.8
Settlement of convertible debt	—	(438.1)	—	—	—	—	(438.1)
Share-based compensation	—	172.7	—	—	—	—	172.7
Cash dividend	—	—	—	—	—	(350.1)	(350.1)
Balance at March 31, 2020	258.4	2,675.3	13.1	(500.6)	(21.6)	3,432.4	5,585.5
Net income	—	—	—	—	—	349.4	349.4
Other comprehensive loss	—	—	—	—	(4.6)	—	(4.6)
Proceeds from sales of common stock through employee equity incentive plans	2.6	60.3	—	—	—	—	60.3
Restricted stock unit and stock appreciation right withholdings	(0.5)	(64.6)	—	—	—	—	(64.6)
Treasury stock used for new issuances	(2.1)	(66.8)	(2.1)	66.8	—	—	—
Shares issued to settle convertible debt	26.1	3,171.1	—	—	—	—	3,171.1
Settlement of convertible debt	—	(3,622.1)	—	—	—	—	(3,622.1)
Purchase of capped call options	—	(35.8)	—	—	—	—	(35.8)
Issuance of 2020 Senior Convertible Debt	—	87.7	—	—	—	—	87.7
Share-based compensation	—	198.5	—	—	—	—	198.5
Cash dividend	—	—	—	—	—	(388.3)	(388.3)
Balance at March 31, 2021	284.5	\$ 2,403.6	11.0	\$ (433.8)	\$ (26.2)	\$ 3,393.5	\$ 5,337.1

See accompanying notes to consolidated financial statements



**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies**

**Nature of Business**

Microchip Technology Incorporated (Microchip or the Company) develops, manufactures and sells smart, connected and secure embedded control solutions used by its customers for a wide variety of applications. The Company provides 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 the Company's solutions by its customers in their end products.

**Principles of Consolidation**

The Company prepares its consolidated financial statements in accordance with U.S. GAAP. The consolidated financial statements include the accounts of Microchip and its majority-owned and controlled subsidiaries. All significant intercompany accounts 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. As further discussed in Note 2, on May 29, 2018, the Company completed its acquisition of Microsemi Corporation (Microsemi) and the Company's financial results include Microsemi's results beginning as of such acquisition date.

**Revenue Recognition**

The Company generates revenue primarily from sales of semiconductor products to distributors and non-distributor customers (direct customers) and, to a lesser extent, from royalties paid by licensees of intellectual property. The Company applies the following five-step approach to determine the timing and amount of revenue recognition: (i) identify the contract with the customer, (ii) identify performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the performance obligation is satisfied.

Sales to distributors are governed by a distributor agreement, a purchase order, and an order acknowledgment. Sales to distributors do not meet the definition of a contract until the distributor has sent in a purchase order, the Company has acknowledged the order, the Company has deemed the collectability of the consideration to be probable, and legally enforceable rights and obligations have been created; this generally occurs 30 days prior to the estimated ship date. As is customary in the semiconductor industry, the Company offers price concessions and stock rotation rights to many of its distributors. As these are forms of variable consideration, the Company estimates the amount of consideration to which they will be entitled using recent historical data and applying the expected value method. Usually, there is only a single performance obligation in the contract, and therefore the entire transaction price is allocated to the single performance obligation. After the transaction price has been allocated, the Company recognizes revenue when the performance obligation is satisfied. Substantially all of the revenue generated from contracts with distributors is recognized at the time risk and title of the inventory transfers to the distributor.

Sales to direct customers are generally governed by a purchase order and an order acknowledgment. Sales to direct customers usually do not meet the definition of a contract until shipment of the product occurs. Generally, the transaction price associated with contracts with direct customers is set at the standalone selling price and is not variable. Usually, there is only a single performance obligation in the contract, and therefore the entire transaction price is allocated to the single performance obligation. After the transaction price has been allocated, the Company recognizes revenue when the performance obligation is satisfied. Substantially all of the revenue generated from contracts with direct customers is recognized at the time risk and title of the inventory transfers to the customer.

Revenue generated from licensees is governed by licensing agreements. The Company's primary performance obligation related to these agreements is to provide the licensee the right to use the intellectual property. The final transaction price is determined by multiplying the usage of the license by the royalty, which is fixed in the licensing agreement. Revenue is recognized as usage of the license occurs.

### **Product Warranty**

The Company typically warrants its products against defects in materials and workmanship and non-conformance to specifications for 12 to 24 months. The majority of the Company's product warranty claims are settled through the return of the defective product and the shipment of replacement product. Warranty returns are included within the Company's allowance for returns, which is based on historical return rates. Actual future returns could differ from the allowance established. In addition, the Company accrues a liability for specific warranty costs expected to be settled other than through product return and replacement, if a loss is probable and can be reasonably estimated. Product warranty expenses were immaterial for the fiscal years ended March 31, 2021, 2020, and 2019.

### **Advertising Costs**

The Company expenses all advertising costs as incurred. Advertising costs were immaterial for the fiscal years ended March 31, 2021, 2020 and 2019.

### **Research and Development**

Research and development costs are expensed as incurred. Assets purchased to support the Company's 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 estimated useful lives. Renewals or extensions of these assets are expensed as incurred. Research and development expenses include expenditures for labor, share-based payments, depreciation, masks, prototype wafers, and expenses for development of process technologies, new packages, and software to support new products and design environments.

### **Restructuring Charges**

Restructuring charges are included within special charges and other, net in the consolidated statements of income and are primarily comprised of employee separation costs, asset impairments, contract exit costs and costs of facility consolidation and closure, including the related gains or losses associated with the sale of owned facilities. Employee separation costs includes one-time termination benefits that are recognized as a liability at estimated fair value, at the time of communication to employees, unless future service is required, in which case the costs are recognized ratably over the future service period. Ongoing termination benefits are recognized as a liability at estimated fair value when the amount of such benefits are probable and reasonably estimable. Contract exit costs includes contract termination fees and ROU asset impairments recognized on the cease-use date of leased facilities. A liability for contract termination fees is recognized in the period in which the Company terminates the contract.

### **Foreign Currency Translation**

Substantially all of the Company's foreign subsidiaries are considered to be extensions of the U.S. company and any translation gains and losses related to these subsidiaries are included in other (loss) income, net in the consolidated statements of income. As the U.S. dollar is utilized as the functional currency, gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiaries' functional currency) are also included in income. For fiscal 2021, 2020 and 2019, certain foreign subsidiaries acquired as part of the Company's acquisition activities had the local currency as the functional currency. For subsidiaries acquired as part of the Company's acquisition of Microsemi, the U.S. dollar will become the functional currency for such entities once integrated into the Company's legal structure and intercompany agreements are executed.

### **Income Taxes**

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheets. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent the Company believes that recovery is not likely, it must establish a valuation allowance. The Company provided valuation allowances for certain of its deferred tax assets where it is more likely than not that some portion, or all of such assets, will not be realized.

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Various taxing authorities in the U.S. and other countries in which the Company does business scrutinize the tax structures employed by businesses. Companies of a similar size and complexity as the Company are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. During the fiscal year ended March 31, 2021, various jurisdictions finalized their audits. The close of these audits did not have an adverse impact on the financial statements. The Company is currently being audited by the tax authorities in the United States and various foreign jurisdictions. At this time, the Company does not know what the outcome of these audits will be. 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 the threshold is met, the Company recognizes the largest amount of the tax benefit that is more than 50% likely to be realized upon ultimate settlement.

The accounting model related to the valuation of uncertain tax positions requires the Company to presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information and that each tax position will be evaluated without consideration of the possibility of offset or aggregation with other positions. The recognition requirement for the liability exists even if the Company believes the possibility of examination by a taxing authority or discovery of the related risk matters is remote or where it has a long history of the taxing authority not performing an exam or overlooking an issue. The Company will record an adjustment to a previously recorded position if new information or facts related to the position are identified in a subsequent period. All adjustments to the positions are recorded through the income statement. Generally, adjustments will be recorded in periods subsequent to the initial recognition if the taxing authority has completed an audit of the period or if the statute of limitation expires. Due to the inherent uncertainty in the estimation process and in consideration of the criteria of the accounting model, amounts recognized in the financial statements in periods subsequent to the initial recognition may significantly differ from the estimated exposure of the position under the accounting model.

On December 22, 2017, the TCJA was enacted into law and established a new provision designed to tax low-taxed income of foreign subsidiaries known as global intangible low-taxed income (GILTI). The FASB allows taxpayers to make an accounting policy election of either (i) treating taxes due on GILTI inclusions as a current-period expense when incurred or (ii) recognizing deferred taxes for temporary basis differences that are expected to reverse as GILTI in future years. The Company has made a policy choice to include taxes due on the future GILTI inclusion in taxable income when incurred.

On March 11, 2021, the American Rescue Plan Act of 2021 (ARPA) was enacted into law in the U.S. The ARPA, among other things, includes provisions to extend the \$1.0 million limitation on deductions for compensation to executive officers to include the eight highest paid individuals rather than the top three in addition to the Chief Executive Officer and Chief Financial Officer, extends the period for which companies may claim an employee retention credit and repeals the election under which a U.S. affiliated group may allocate interest expense on a worldwide basis. The Company continues to examine the impacts the ARPA may have on its business.

### **Cash and Cash Equivalents**

All highly liquid investments, including marketable securities with an original maturity to the Company of three months or less when acquired are considered to be cash equivalents.

### **Derivative Instruments**

Derivative instruments are required to be recorded at fair value as either assets or liabilities in the Company's consolidated balance sheet. The Company's accounting policies for derivative instruments depends on whether the instrument has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

The Company does not apply hedge accounting to foreign currency forward contracts. Gains and losses associated with currency rate changes on forward contracts are recorded currently in income. These gains and losses have been immaterial to the Company's financial statements.

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.

## **Inventories**

Inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. 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. In estimating reserves for obsolescence, the Company primarily evaluates estimates of demand over a 12-month period and provides reserves for inventory on hand in excess of the estimated 12-month demand. Estimates for projected 12-month demand are generally based on the average shipments of the prior three-month period, which are then annualized to adjust for any potential seasonality in the Company's business. The estimated 12-month demand is compared to the Company's most recently developed sales forecast to further reconcile the 12-month demand estimate. Management reviews and adjusts the estimates as appropriate based on specific situations. For example, demand can be adjusted up for new products for which historic sales are not representative of future demand. Alternatively, demand can be adjusted down to the extent any existing products are being replaced or discontinued.

In periods where the Company's production levels are substantially below normal operating capacity, unabsorbed overhead production costs associated with the reduced production levels of the Company's manufacturing facilities are charged directly to cost of sales.

## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. The Company's property and equipment accounting policies incorporate estimates, assumptions and judgments relative to the useful lives of its property and equipment. Depreciation is provided for assets placed in service on a straight-line basis over the estimated useful lives of the relative assets, which range from 10 to 30 years for buildings and building improvements and 5 to 7 years for machinery and equipment. The Company evaluates the carrying value of its property and equipment when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective.

## **Leases**

The Company determines if an arrangement is a lease at its inception. 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 expenses and other current liabilities or other long-term liabilities in the condensed consolidated balance sheets.

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. The Company accounts for the lease and non-lease components as a single lease component.

## **Convertible Debt**

Upon issuance, the Company separately accounts for the liability and equity components of its Convertible Debt by estimating the fair values of the i) liability component without a conversion feature and ii) the conversion feature. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in the Company's consolidated statements of income.

Upon settlement of Convertible Debt instruments, the Company allocates the total consideration between the liability and equity components based on the fair value of the liability component without the conversion feature. The difference between the consideration allocated to the liability component and the net carrying value of the liability component is recognized as an extinguishment loss or gain. The remaining settlement consideration is allocated to the equity component and recognized as a

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reduction of additional paid-in capital in the Company's consolidated balance sheets. In addition, if the terms of the settlement are different from the contractual terms of the original instrument, the Company recognizes an inducement loss, which is measured as the difference between the fair value of the original terms of the instrument and the fair value of the settlement terms.

Determining the fair value of the liability component without the conversion feature upon issuance and settlement involves estimating the equivalent borrowing rate for a similar non-convertible instrument. Given the values of these transactions, fair value estimates are sensitive to changes in the equivalent borrowing rate conclusions. The measurement of the equivalent borrowing rate requires that the Company make estimates of volatility and credit spreads to align observable market inputs with the instrument being valued.

Lastly, the Company includes the dilutive effect of the shares of its common stock issuable upon conversion of the outstanding Convertible Debt in its diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have been met. The Company applies the treasury stock method as it has the intent and has adopted an accounting policy to settle the principal amount of the Convertible Debt in cash. This method results in incremental dilutive shares when the average fair value of the Company's common stock for a reporting period exceeds the conversion prices per share and adjusts as dividends are recorded in the future.

### **Defined Benefit Pension Plans**

The Company maintains defined benefit pension plans, covering certain of its foreign employees. For financial reporting purposes, net periodic pension costs and pension obligations are determined based upon a number of actuarial assumptions, including discount rates for plan obligations, and assumed rates of compensation increases for employees participating in plans. These assumptions are based upon management's judgment and consultation with actuaries, considering all known trends and uncertainties.

### **Contingencies**

In the ordinary course of business, the Company is exposed to various liabilities as a result of contracts, product liability, customer claims 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 and disputes relating to the semiconductor industry are not uncommon, and the Company is, from time to time, subject to such litigation and disputes. As a result, no assurances can be given with respect to the extent or outcome of any such litigation or disputes in the future.

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, it 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, it 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, it uses the amount that is the low end of such range.

### **Business Combinations**

All of the Company's business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense. The aggregate amount of consideration paid by the Company is allocated to net tangible assets and intangible assets based on their estimated fair values as of the acquisition date. The excess of the purchase price over the value of the net tangible assets and intangible assets is recorded to goodwill. The measurement of fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets, in particular, requires that the Company use valuation techniques such as the income

approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows.

### **Goodwill and Other Intangible Assets**

The Company's intangible assets include goodwill and other intangible assets. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Other intangible assets include existing technologies, core and developed technology, in-process research and development, trademarks and trade names, distribution rights and customer-related intangibles. 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. Indefinite-lived intangible assets consist of goodwill and in-process research and development intangible assets that have not yet been placed in service. All other intangible assets are definite-lived intangible assets, including in-process research and development assets that have been placed in service, and are amortized over their respective estimated lives, ranging from 1 to 15 years.

The Company is required to perform an impairment review of indefinite-lived intangible assets, including goodwill annually, and more frequently under certain circumstances. Indefinite-lived intangible assets are subjected to this annual impairment test during the fourth quarter of the Company's fiscal year. The Company engages primarily in the development, manufacture and sale of semiconductor products as well as technology licensing. As a result, the Company concluded there are two reporting units, semiconductor products and technology licensing. The Company's impairment evaluation consists of a qualitative impairment assessment in which management evaluates whether it is more likely than not that the indefinite-lived intangible assets are impaired. If it is determined that it is more likely than not, the Company performs a quantitative impairment test, which compares the fair value of the reporting unit or indefinite-lived intangible asset to its carrying value. If the Company determines through the impairment process that the indefinite-lived intangible asset has been impaired, the Company will record the impairment charge in its results of operation. Through March 31, 2021, the Company has not had impaired goodwill. In the event that facts and circumstances indicate definite-lived intangible assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets. If such indicators are present, recoverability is evaluated based on whether the sum of the estimated undiscounted cash flows attributable to the asset (group) in question is less than their carrying value. If less, the Company measures the fair value of the asset (group) and recognizes an impairment loss if the carrying amount of the assets exceeds their respective fair values.

### **Impairment of Long-Lived Assets**

The Company assesses whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment loss through a charge to operating results to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The Company would depreciate the remaining value over the remaining estimated useful life of the asset.

### **Share-Based Compensation**

The Company has equity incentive plans under which non-qualified stock options and RSUs have been granted to employees and non-employee members of the Board of Directors. The Company uses RSUs as its primary equity incentive compensation instrument for employees. The Company also has employee stock purchase plans for eligible employees. Share-based compensation cost is measured on the grant date based on the fair market value of the Company's common stock discounted for expected future dividends and is recognized as expense on a straight-line basis over the requisite service periods.

If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate or increase any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that the Company grants additional equity awards to employees or it assumes unvested equity awards in connection with acquisitions.

## **Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. Concentrations of credit risk with respect to accounts receivable are generally not significant due to the diversity of the Company's customers and geographic sales areas. The Company sells its products primarily to OEMs and distributors in the Americas, Europe and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, as deemed necessary, may require collateral, primarily letters of credit.

Distributor advances in the consolidated balance sheets, totaled \$104.8 million and \$141.0 million at March 31, 2021 and March 31, 2020, respectively. On sales to distributors, the Company's payment terms generally require the distributor to settle amounts owed to the Company for an amount in excess of their ultimate cost. The Company's sales price to its distributors may be higher than the amount that the distributors will ultimately owe the Company because distributors often negotiate price reductions after purchasing the products from the Company and such reductions are often significant. It is the Company's practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of the Company's distributors. As such, the Company has entered into agreements with certain distributors whereby it advances cash to the distributors to reduce the distributors' working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on revenue recognition or the Company's consolidated statements of income. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be canceled by the Company at any time.

## **Use of Estimates**

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

## **Business Segments**

Operating segments are components of an enterprise about which separate financial information is regularly reviewed by the chief operating decision maker (CODM) to assess the performance of the component and make decisions about the resources to be allocated to the component. The Company's President and Chief Executive Officer has been identified as the CODM. Based on the Company's structure and manner in which the Company is managed and decisions are made, the Company's business is made up of two operating segments, semiconductor products and technology licensing.

In the semiconductor products segment, the Company designs, develops, manufactures and markets microcontrollers, development tools and analog, interface, mixed-signal, timing, wired and wireless connectivity devices, and memory products. Under the leadership of the CODM, the Company is structured and organized around standardized roles and responsibilities based on product groups and functional activities. The Company's product groups are responsible for product research, design and development. The Company's functional activities include sales, marketing, manufacturing, information technology, human resources, legal and finance.

The Company's product groups have similar products, production processes, types of customers and methods for distribution. In addition, the tools and technologies used in the design and manufacture of the Company's products are shared among the various product groups. The Company's product group leaders, under the direction of the CODM, define the product roadmaps and team with sales personnel to achieve design wins and revenue and other performance targets. Product group leaders also interact with manufacturing and operational personnel who are responsible for the production, prioritization and planning of the Company's manufacturing capabilities to help ensure the efficiency of the Company's operations and fulfillment of customer requirements. This centralized structure supports a global operating strategy in which the CODM assesses performance and allocates resources based on the Company's consolidated results.

## **Subsequent Events**

The Company evaluated events after March 31, 2021, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

### Recently Adopted Accounting Pronouncements

The Company adopted the following Accounting Standards Updates in fiscal 2021, none of which had a material impact on its consolidated financial statements.

Accounting Standards Updates	Description
ASU 2020-04	<i>Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting</i>
ASU 2018-15	<i>Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i>
ASU 2018-13	<i>Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement</i>
ASU 2017-04	<i>Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>
ASU 2016-13	<i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>

### Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2020, the FASB issued ASU 2020-06-*Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity*, which simplifies the guidance for certain convertible debt instruments by removing the separation models for convertible debt with a cash conversion feature or convertible instruments with a beneficial conversion feature. As a result, convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, ASU 2020-06 requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will be no longer available. The provisions of ASU 2020-06 are applicable for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. The Company expects the primary impacts of this new standard will be to increase the carrying value of its Convertible Debt and reduce its reported interest expense. In addition, the Company will be required to use the if-converted method for calculating diluted earnings per share. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

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, 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 consolidated financial statements.

## Note 2. 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 Credit Facility, \$3.00 billion under its Term Loan Facility provided under the Company's amended and restated 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.



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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.

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).

<b>Assets Acquired</b>	
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
<b>Total assets acquired</b>	<b>11,477.1</b>
<b>Liabilities Assumed</b>	
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)
<b>Total liabilities assumed</b>	<b>(3,232.6)</b>
<b>Purchase price allocated</b>	<b>\$ 8,244.5</b>

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
<b>Total purchased intangible assets</b>		<b>\$ 5,634.5</b>

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.

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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.

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 3. Special Charges and Other, Net**

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

	Fiscal Year Ended March 31,		
	2021	2020	2019
Restructuring			
Employee separation costs	\$ (1.3)	\$ 6.0	\$ 65.3
Gain on sale of assets	(5.8)	(1.5)	—
Impairment charges	—	0.7	3.6
Contract exit costs	(1.6)	5.2	(4.7)
Wafer fabrication restructuring	15.0	18.0	—
Other	0.1	2.6	(0.3)
Legal contingencies	0.2	15.7	(30.2)
Contingent consideration revaluation	(4.9)	—	—
Total	\$ 1.7	\$ 46.7	\$ 33.7

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.

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During the fiscal year ended March 31, 2021, the Company incurred net costs of \$15.0 million associated with restructuring certain of its wafer fabrication operations consisting of \$8.0 million to re-purpose its Colorado Springs (Fab 5) facility and \$7.0 million associated with restructuring other acquired operations compared to net costs of \$18.0 million during the fiscal year ended March 31, 2020 to re-purpose its Fab 5 facility, primarily consisting of \$8.2 million in contract exit costs, \$6.6 million in other relocation costs and \$2.5 million in asset impairment charges. These wafer fabrication restructuring efforts were substantially completed as of March 31, 2021. The Company's other restructuring activities during the fiscal years ended March 31, 2021, March 31, 2020 and March 31, 2019 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. The impairment charges in the fiscal year ended March 31, 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, other previous acquisitions, or the restructuring of wafer fabrication operations. The Company is not able to estimate the amount of other such future expenses at this time.

During the fiscal year ended March 31, 2020, the Company incurred \$15.7 million of net charges related to legal settlements, for which the majority of the cash settlement occurred early in the fiscal year ended March 31, 2021.

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company incurred \$71.2 million in costs since the start of the fiscal year ended March 31, 2018 in connection with employee separation activities net of \$1.3 million in credits during the fiscal year ended March 31, 2021 and \$6.0 million and \$65.3 million were incurred during the fiscal years ended March 31, 2020 and 2019, 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 \$0.4 million in net credits in connection with contract exit activities since the start of the fiscal year ended March 31, 2018 which includes net credits of \$1.6 million and \$4.7 million for the fiscal years ended March 31, 2021 and March 31, 2019, respectively, compared to expense of \$5.2 million for the fiscal year ended March 31, 2020.

The liability for restructuring and other exit costs of \$15.9 million is included in accrued liabilities and other long-term liabilities, on the Company's consolidated balance sheets as of March 31, 2021.

### Note 4. Net Sales

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

	Fiscal Year Ended March 31,		
	2021	2020	2019
Microcontrollers	\$ 2,961.0	\$ 2,817.9	\$ 2,921.9
Analog	1,519.8	1,511.1	1,530.7
Other	957.6	945.2	896.9
Total net sales	\$ 5,438.4	\$ 5,274.2	\$ 5,349.5

The product lines listed above are included entirely in the Company's semiconductor product segment with the exception of the 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):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Distributors	\$ 2,737.4	\$ 2,626.9	\$ 2,719.1
Direct customers	2,598.1	2,550.4	2,498.0
Licensees	102.9	96.9	132.4
Total net sales	\$ 5,438.4	\$ 5,274.2	\$ 5,349.5

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 OEMs and, to a lesser extent, contract manufacturers. Licensees are customers of the Company's technology licensing segment, which

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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 licenses, which is included in 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 10 for the opening and closing balances of the Company's receivables.

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 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 10 for the opening and closing balances of the Company's receivables.

## **Note 5. Geographic and 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 (in millions):

	Fiscal Year Ended March 31,					
	2021		2020		2019	
	Net Sales	Gross Profit	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 5,335.5	\$ 3,275.9	\$ 5,177.3	\$ 3,145.2	\$ 5,217.1	\$ 2,798.9
Technology licensing	102.9	102.9	96.9	96.9	132.4	132.4
Total	\$ 5,438.4	\$ 3,378.8	\$ 5,274.2	\$ 3,242.1	\$ 5,349.5	\$ 2,931.3

The Company sells its products to distributors and OEMs in a broad range of market segments, performs on-going credit evaluations of its customers and, as deemed necessary, may require collateral, primarily letters of credit. The Company's operations outside the U.S. consist of product assembly and final test facilities in Thailand, and sales and support centers and

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design centers in certain foreign countries. Domestic operations are responsible for the design, development and wafer fabrication of products, as well as the coordination of production planning and shipping to meet worldwide customer commitments. The Company's Thailand assembly and test facility is reimbursed in relation to value added with respect to assembly and test operations and other functions performed, and certain foreign sales offices receive compensation for sales within their territory. Accordingly, for financial statement purposes, it is not meaningful to segregate sales or operating profits for the assembly and test and foreign sales office operations. Identifiable long-lived assets (consisting of property, plant and equipment net of accumulated amortization and ROU assets) by geographic area are as follows (in millions):

	March 31,	
	2021	2020
United States	\$ 516.6	\$ 515.0
Thailand	178.1	174.4
Various other countries	314.3	306.2
Total long-lived assets	\$ 1,009.0	\$ 995.6

Sales to unaffiliated customers located outside the U.S., primarily in Asia and Europe, aggregated approximately 77%, 78% and 80% of consolidated net sales for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Sales to customers in Europe represented approximately 19%, 22% and 23% of consolidated net sales for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Sales to customers in Asia represented approximately 55% of consolidated net sales for fiscal 2021 and approximately 52% of consolidated net sales for each of fiscal 2020 and 2019. Within Asia, sales into China represented approximately 22%, 21% and 22% of consolidated net sales for fiscal 2021, 2020 and 2019, respectively. Sales into Taiwan represented approximately 16%, 15% and 13% of consolidated net sales for fiscal 2021, 2020 and 2019, respectively. Sales into any other individual foreign country did not exceed 10% of the Company's net sales for any of the three years presented.

With the exception of Arrow Electronics, the Company's largest distributor, which accounted for 10% of net sales in fiscal 2020 and fiscal 2019, no other distributor or end customer accounted for more than 10% of net sales in fiscal 2021, fiscal 2020 or fiscal 2019.

### Note 6. 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):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Net income	\$ 349.4	\$ 570.6	\$ 355.9
Basic weighted average common shares outstanding	259.6	238.9	236.2
Dilutive effect of stock options and RSUs	3.5	3.4	3.8
Dilutive effect of 2015 Senior Convertible Debt	4.7	13.7	9.9
Dilutive effect of 2017 Senior Convertible Debt	1.7	0.1	—
Dilutive effect of 2020 Senior Convertible Debt	—	—	—
Dilutive effect of 2017 Junior Convertible Debt	1.1	0.1	—
Diluted weighted average common shares outstanding	270.6	256.2	249.9
Basic net income per common share	\$ 1.35	\$ 2.39	\$ 1.51
Diluted net income per common share	\$ 1.29	\$ 2.23	\$ 1.42

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 fiscal years ended March 31, 2021, 2020 and 2019.

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The Company's 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 Convertible Debt 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 7 for details on the Convertible Debt):

	Fiscal Year Ended March 31,		
	2021	2020	2019
2015 Senior Convertible Debt	\$ 60.90	\$ 61.80	\$ 62.86
2017 Senior Convertible Debt	\$ 94.96	\$ 96.37	\$ 98.03
2020 Senior Convertible Debt	\$ 186.86	\$ —	\$ —
2017 Junior Convertible Debt	\$ 93.30	\$ 94.68	\$ 96.31

**Note 7. Debt**

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

	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance <sup>(1)</sup>	March 31,	
				2021	2020
<i>Senior Secured Indebtedness</i>					
Revolving Credit Facility				\$ 2,346.6	\$ 2,388.5
Term Loan Facility				—	1,723.5
Bridge Loan Facility				—	615.0
3.922% 2021 Notes	3.922%	4.5%		1,000.0	1,000.0
4.333% 2023 Notes	4.333%	4.7%		1,000.0	1,000.0
2.670% 2023 Notes	2.670%	2.8%		1,000.0	—
0.972% 2024 Notes	0.972%	1.1%		1,400.0	—
<i>Senior Unsecured Indebtedness</i>					
4.250% 2025 Notes	4.250%	4.6%		1,200.0	—
<b>Total Senior Indebtedness</b>				<b>7,946.6</b>	<b>6,727.0</b>
<i>Senior Subordinated Convertible Debt - Principal Outstanding</i>					
2015 Senior Convertible Debt	1.625%	5.9%	\$ 120.9	141.4	1,110.0
2017 Senior Convertible Debt	1.625%	6.0%	\$ 260.9	333.3	2,070.0
2020 Senior Convertible Debt	0.125%	5.1%	\$ 555.5	665.5	—
<i>Junior Subordinated Convertible Debt - Principal Outstanding</i>					
2017 Junior Convertible Debt	2.250%	7.4%	\$ 64.0	122.6	686.3
<b>Total Convertible Debt</b>				<b>1,262.8</b>	<b>3,866.3</b>
<b>Gross long-term debt including current maturities</b>				<b>9,209.4</b>	<b>10,593.3</b>
Less: Debt discount <sup>(2)</sup>				(273.0)	(1,043.2)
Less: Debt issuance costs <sup>(3)</sup>				(32.3)	(67.9)
<b>Net long-term debt including current maturities</b>				<b>8,904.1</b>	<b>9,482.2</b>
Less: Current maturities <sup>(4)</sup>				(1,322.9)	(608.8)
<b>Net long-term debt</b>				<b>\$ 7,581.2</b>	<b>\$ 8,873.4</b>

<sup>(1)</sup> 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. 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.

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<sup>(2)</sup> The unamortized discount consists of the following (in millions):

	March 31,	
	2021	2020
Bridge Loan Facility	\$ —	\$ (3.1)
3.922% 2021 Notes	(0.3)	(2.1)
4.333% 2023 Notes	(2.4)	(3.5)
2.670% 2023 Notes	(2.3)	—
0.972% 2024 Notes	(3.8)	—
4.250% 2025 Notes	(12.8)	—
2015 Senior Convertible Debt	(20.1)	(192.9)
2017 Senior Convertible Debt	(71.3)	(504.2)
2020 Senior Convertible Debt	(101.6)	—
2017 Junior Convertible Debt	(58.4)	(337.4)
<b>Total unamortized discount</b>	<b>\$ (273.0)</b>	<b>\$ (1,043.2)</b>

<sup>(3)</sup> Debt issuance costs consist of the following (in millions):

	March 31,	
	2021	2020
Revolving Credit Facility	\$ (10.0)	\$ (14.6)
Term Loan Facility	—	(14.6)
Bridge Loan Facility	—	(3.1)
3.922% 2021 Notes	(0.7)	(4.8)
4.333% 2023 Notes	(5.3)	(7.7)
2.670% 2023 Notes	(1.3)	—
0.972% 2024 Notes	(2.0)	—
4.250% 2025 Notes	(1.7)	—
2015 Senior Convertible Debt	(0.7)	(7.0)
2017 Senior Convertible Debt	(1.8)	(13.0)
2020 Senior Convertible Debt	(8.3)	—
2017 Junior Convertible Debt	(0.5)	(3.1)
<b>Total debt issuance costs</b>	<b>\$ (32.3)</b>	<b>\$ (67.9)</b>

<sup>(4)</sup> As of March 31, 2021, current maturities consist of the liability component of the 2017 Senior Convertible Debt and the 2017 Junior Convertible Debt, and the 3.922% 2021 Notes which are due June 1, 2021. As of March 31, 2020, current maturities included the Bridge Loan Facility.

Expected maturities relating to the Company's debt obligations as of March 31, 2021 are as follows (in millions):

Fiscal year ending March 31,	Expected Maturities
2022	\$ 1,000.0
2023	—
2024	5,746.6
2025	806.9
2026	1,200.0
Thereafter	455.9
<b>Total</b>	<b>\$ 9,209.4</b>

*Ranking of Convertible Debt* - The Convertible Debt are unsecured obligations which are subordinated in right of payment to the amounts outstanding under the Company's Senior Indebtedness. The 2017 Junior Convertible Debt is expressly subordinated in right of payment to any existing and future senior debt of the Company (including the Senior Indebtedness 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 Senior Indebtedness; ranks senior to the Company's indebtedness that is expressly subordinated in right of payment to it, including the 2017 Junior Convertible Debt; ranks equal in right of payment to any of the Company's unsubordinated indebtedness that does not provide that it is

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senior to the Senior Subordinated Convertible Debt; ranks junior in right of payment to any of the Company's secured and unsecured 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.

*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 (i) such time as the closing price of the Company's common stock exceeds the applicable 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 (ii) 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 of a given series 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 applicable conversion rate on each such trading day or (iii) upon the occurrence of certain corporate events specified in the indenture of such series of Convertible Debt. In addition, for each series, with the exception of the 2020 Senior Convertible Debt, 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 March 31, 2021			
	Conversion Rate	Approximate Conversion Price	Incremental Share Factor	Maximum Conversion Rate
2015 Senior Convertible Debt <sup>(1)</sup>	16.5197	\$ 60.53	8.2599	23.1276
2017 Senior Convertible Debt <sup>(1)</sup>	10.5934	\$ 94.40	5.2967	15.0957
2020 Senior Convertible Debt <sup>(1)</sup>	5.3521	\$ 186.84	—	7.4929
2017 Junior Convertible Debt <sup>(1)</sup>	10.7826	\$ 92.74	5.3914	15.0957

<sup>(1)</sup> As of March 31, 2021, the 2020 Senior Convertible Debt was not convertible. As of March 31, 2021, the holders of each of the 2015 Senior Convertible Debt, 2017 Senior Convertible Debt, and 2017 Junior Convertible Debt have the right to convert their notes between April 1, 2021 and June 30, 2021 because the Company's common stock price has exceeded the applicable conversion price for such series by 130% for the specified period of time during the quarter ended March 31, 2021. As of March 31, 2021, the adjusted conversion rate for the 2015 Senior Convertible Debt, 2017 Senior Convertible Debt, and 2017 Junior Convertible Debt would be increased to 21.5583 shares of common stock, 12.6689 shares of common stock, and 12.9527 shares of common stock, respectively, per \$1,000 principal amount of notes based on the closing price of \$155.22 per share of common stock to include an additional maximum incremental share rate per the terms of the applicable indenture. As of March 31, 2021, each of the 2015 Senior Convertible Debt, 2017 Senior Convertible Debt, and 2017 Junior Convertible Debt had a conversion value in excess of par of \$331.9 million, \$322.2 million, and \$123.9 million, respectively.

With the exception of the 2020 Senior Convertible Debt, which may be redeemed by the Company on or after November 20, 2022, 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. Under the terms of the applicable indenture, the Company may repurchase any series of Convertible Debt in the open market through privately negotiated exchange offers. 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.



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Interest expense consists of the following (in millions):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Debt issuance cost amortization	\$ 14.7	\$ 13.2	\$ 12.9
Debt discount amortization	6.6	2.9	2.2
Interest expense	227.4	277.6	291.8
Total interest expense on Senior Indebtedness	248.7	293.7	306.9
Debt issuance cost amortization	2.4	3.9	3.6
Debt discount amortization	64.5	118.8	112.4
Coupon interest expense	37.6	77.2	77.1
Total interest expense on Convertible Debt	104.5	199.9	193.1
Other interest expense	3.7	3.7	2.9
Total interest expense	\$ 356.9	\$ 497.3	\$ 502.9

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 3.9 years, 5.9 years, 3.6 years, and 15.9 years for the 2015 Senior Convertible Debt, 2017 Senior Convertible Debt, 2020 Senior Convertible Debt, and 2017 Junior Convertible Debt, respectively.

The Company's settlement transactions consists of the following (in millions)<sup>(1)</sup>:

	Principal Amount Settled	Consideration				Fair Value Settled <sup>(2)</sup>	Equity Component <sup>(2)</sup>	Net Loss on Inducements and Settlements
		Cash Paid	Value of Shares Issued	Debt Issued	Total			
<i>February 2021<sup>(3)</sup></i>								
2015 Senior Convertible Debt	\$ 81.0	\$ 81.0	\$ 206.5	\$ —	\$ 287.5	\$ 79.2	\$ 208.1	\$ 10.7
2017 Senior Convertible Debt	\$ 122.2	\$ 122.2	\$ 166.4	\$ —	\$ 288.6	\$ 115.9	\$ 168.2	\$ 25.5
2017 Junior Convertible Debt	\$ 156.0	\$ 156.0	\$ 217.9	\$ —	\$ 373.9	\$ 129.8	\$ 243.9	\$ 49.4
<i>December 2020<sup>(4)</sup></i>								
2015 Senior Convertible Debt	\$ 90.0	\$ 48.5	\$ 221.0	\$ —	\$ 269.5	\$ 79.4	\$ 184.5	\$ 9.4
2017 Senior Convertible Debt	\$ 588.8	\$ 155.4	\$ 408.7	\$ 601.5	\$ 1,165.6	\$ 486.7	\$ 655.3	\$ 57.0
2017 Junior Convertible Debt	\$ 407.7	\$ 225.0	\$ 530.4	\$ 64.0	\$ 819.4	\$ 246.3	\$ 547.1	\$ 62.8
Term Loan Facility	\$ 1,705.7	\$ 1,705.7	\$ —	\$ —	\$ 1,705.7	\$ —	\$ —	\$ 12.9
<i>August 2020<sup>(5)</sup></i>								
2015 Senior Convertible Debt	\$ 414.3	\$ 414.3	\$ 547.6	\$ —	\$ 961.9	\$ 351.7	\$ 592.3	\$ 25.0
2017 Senior Convertible Debt	\$ 381.8	\$ 381.8	\$ 221.1	\$ —	\$ 602.9	\$ 299.0	\$ 292.2	\$ 20.1
<i>June 2020<sup>(6)</sup></i>								
2015 Senior Convertible Debt	\$ 383.3	\$ 383.3	\$ 405.1	\$ —	\$ 788.4	\$ 314.4	\$ 464.4	\$ 7.8
2017 Senior Convertible Debt	\$ 643.9	\$ 643.9	\$ 246.4	\$ —	\$ 890.3	\$ 481.0	\$ 390.9	\$ 13.7
Term Loan Facility	\$ 17.8	\$ 17.8	\$ —	\$ —	\$ 17.8	\$ —	\$ —	\$ —
Bridge Loan Facility	\$ 615.0	\$ 615.0	\$ —	\$ —	\$ 615.0	\$ —	\$ —	\$ 5.3
<i>March 2020<sup>(7)</sup></i>								
2015 Senior Convertible Debt	\$ 615.0	\$ 615.0	\$ 351.8	\$ —	\$ 966.8	\$ 460.4	\$ 461.1	\$ 3.4

<sup>(1)</sup> The Company settled portions of its convertible debt in privately negotiated transactions that are accounted for as induced conversions.

<sup>(2)</sup> The total consideration for the convertible debt settlements was allocated to the liability and equity components using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt instrument prior to the settlement.

<sup>(3)</sup> The Company used borrowings under its Revolving Credit Facility to finance a portion of such settlement.

<sup>(4)</sup> The Company used proceeds from the issuance of \$665.5 million principal amount of 2020 Senior Convertible Debt and used borrowings under its Revolving Credit Facility to finance a portion of such settlement. The Company also issued \$1.40 billion aggregate principal amount of 0.972% 2024 Notes and used the proceeds in addition to \$213.0 million in borrowings under its Revolving Credit Facility, and cash on hand to repay all amounts outstanding under its Term Loan Facility.

<sup>(5)</sup> The Company used borrowings under its Revolving Credit Facility to finance a portion of such settlement.

<sup>(6)</sup> The Company used a portion of the proceeds from the issuance of the 2.670% 2023 Notes and the 4.250% 2025 Notes to (i) finance a portion of such settlement, and (ii) repay a portion of the amount outstanding under the Company's existing Revolving Credit Facility as well as for general corporate purposes.

<sup>(7)</sup> The Company entered into a Bridge Loan Facility (which has since been repaid in full), for an aggregate principal amount of \$615.0 million to finance a portion of such settlement.

In December 2020, in connection with the issuance of the 2020 Senior Convertible Debt, the Company incurred issuance costs of \$10.8 million, of which \$9.0 million was recorded as debt issuance costs and will be amortized using the effective interest method over the term of the debt. The remainder of \$1.8 million in fees was recorded to equity. The debt discount on the 2020 Senior Convertible Debt was the difference between the par value and the fair value of the debt resulting in a debt discount of \$110.0 million which will be amortized to interest expense using the effective interest method over the term of the debt. Interest on the 2020 Senior Convertible Debt is payable semi-annually in arrears on May 15 and November 15 of each year. In connection with the issuance of the 2020 Senior Convertible Debt, the Company entered into capped call option transactions with several financial institutions at a cost of \$35.8 million. The capped call options cover, subject to anti-dilution adjustments, the number of shares of the Company's common stock initially underlying the 2020 Senior Convertible Debt. Upon conversion of the 2020 Senior Convertible Debt, the Company may exercise the capped call options subject to a cap strike price of \$233.58 per share which would reduce the potential dilution to the Company's common stock or offset any cash payments the Company is required to make in excess of the principal amount of converted notes. Upon conversion of the 2020 Senior Convertible Debt, there will be no economic dilution from the notes until the average market price of the Company's common stock exceeds the cap price of \$233.58 per share as the exercise of the capped call options will offset any dilution from the 2020 Senior Convertible Debt from the conversion price up to the cap price. As these transactions meet certain accounting criteria, the capped call options are recorded as a reduction of stockholders' equity and are not accounted for as derivatives.

#### *Senior Notes*

The 0.972% 2024 Notes mature on February 15, 2024 and interest accrues at a rate of 0.972% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. The 2.670% 2023 Notes mature on September 1, 2023 and interest accrues at a rate of 2.670% per annum, payable semi-annually in arrears on March 1 and September 1 of each year. The 4.250% 2025 Notes mature on September 1, 2025 and interest accrues at a rate of 4.250% per annum, payable semi-annually in arrears on March 1 and September 1 of each year. The 3.922% 2021 Notes mature on June 1, 2021 and interest accrues at a rate of 3.922% per annum, payable semi-annually in arrears on June 1 and December 1 of each year. The 4.333% 2023 Notes mature on June 1, 2023 and interest accrues at a rate of 4.333% per annum, payable semi-annually in arrears on June 1 and December 1 of each year.

The Company may, at its option, redeem some or all of the applicable series of Senior Notes in the manner set forth in the indenture governing the applicable series of Senior Notes. If the Company experiences a specified change of control triggering event set forth in the indenture governing the applicable series of Senior Notes, the Company must offer to repurchase each of the notes of such series at a price equal to 101% of the principal amount of each note of such series repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date.

The indenture governing each series of Senior Notes contains certain customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, create or incur certain liens, and enter into sale and leaseback transactions, sell or otherwise dispose of any assets constituting collateral securing the Senior Notes, and consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets, to another person. These covenants are subject to a number of limitations and exceptions set forth in the indenture governing the applicable series of Senior Notes.

Each series of Senior Notes is guaranteed by certain of the Company's subsidiaries that have also guaranteed the obligations under the Credit Agreement and under the Company's existing Senior Indebtedness. In the future, each subsidiary of the Company that is a guarantor or other obligor of the Credit Agreement is required to guarantee each series of Senior Notes.

The 0.972% 2024 Notes, the 2.670% 2023 Notes, the 3.922% 2021 Notes, and the 4.333% 2023 Notes and each of the associated guarantees are secured, on a pari passu first lien basis with the Credit Agreement, 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

Credit Agreement, in each case subject to certain thresholds, exceptions and permitted liens, as set forth in the respective security agreement, by and among the Company, the subsidiary guarantors party thereto and the collateral agent.

*Senior Credit Facilities*

In March 2020 and September 2019, the Company amended the Company's Credit Agreement to, among other things, provide the ability to factor receivables and, subject to the satisfaction of specified conditions, to permit the incurrence of secured debt. In addition, the amendments 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 amendments reduced the commitments for the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion.

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 have granted a security interest in substantially all of their assets subject to certain exceptions and limitations.

In May 2018, the Company borrowed \$3.00 billion aggregate principal amount of loans under the Term Loan Facility. As of March 31, 2021, the Company has repaid all amounts outstanding under its Term Loan Facility.

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. As of March 31, 2021, the Company was in compliance with these financial covenants.

**Note 8. Fair Value of Financial Instruments**

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 March 31, 2021 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, Term Loan Facility and Bridge 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 at March 31, 2021 approximated the carrying value excluding debt discounts and debt issuance costs and are considered Level 2 in the fair value hierarchy. The Company measures the fair value of its Convertible Debt and Senior Notes for disclosure purposes. These fair values are 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.

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The following table shows the carrying amounts and fair values of the Company's debt obligations (in millions):

	March 31,			
	2021		2020	
	Carrying Amount <sup>(1)</sup>	Fair Value	Carrying Amount <sup>(1)</sup>	Fair Value
Revolving Credit Facility	\$ 2,336.6	\$ 2,346.6	\$ 2,373.9	\$ 2,388.5
Term Loan Facility	—	—	1,708.9	1,723.5
Bridge Loan Facility	—	—	608.8	615.0
3.922% 2021 Notes	999.0	1,004.3	993.1	985.0
4.333% 2023 Notes	992.3	1,022.4	988.8	990.0
2.670% 2023 Notes	996.4	1,040.8	—	—
0.972% 2024 Notes	1,394.2	1,394.0	—	—
4.250% 2025 Notes	1,185.5	1,252.6	—	—
2015 Senior Convertible Debt	120.6	485.4	910.1	1,601.8
2017 Senior Convertible Debt	260.2	731.4	1,552.8	2,130.3
2020 Senior Convertible Debt	555.6	778.3	—	—
2017 Junior Convertible Debt	63.7	272.9	345.8	656.2
<b>Total</b>	<b>\$ 8,904.1</b>	<b>\$ 10,328.7</b>	<b>\$ 9,482.2</b>	<b>\$ 11,090.3</b>

<sup>(1)</sup>The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 7 for further information).

**Note 9. Intangible Assets and Goodwill**

Intangible assets consist of the following (in millions):

	March 31, 2021		
	Gross Amount	Accumulated Amortization	Net Amount
	Core and developed technology	\$ 7,371.3	\$ (2,771.0)
Customer-related	835.2	(702.6)	132.6
In-process research and development	7.7	—	7.7
Distribution rights and other	130.2	(76.0)	54.2
<b>Total</b>	<b>\$ 8,344.4</b>	<b>\$ (3,549.6)</b>	<b>\$ 4,794.8</b>

	March 31, 2020		
	Gross Amount	Accumulated Amortization	Net Amount
	Core and developed technology	\$ 7,331.9	\$ (1,924.6)
Customer-related	903.6	(674.7)	228.9
In-process research and development	8.8	—	8.8
Distribution rights and other	126.0	(68.7)	57.3
<b>Total</b>	<b>\$ 8,370.3</b>	<b>\$ (2,668.0)</b>	<b>\$ 5,702.3</b>

The following is an expected amortization schedule for the intangible assets for fiscal 2022 through fiscal 2026, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending March 31,	Projected Amortization Expense
2022	\$ 912.0
2023	\$ 707.2
2024	\$ 627.7
2025	\$ 508.1
2026	\$ 445.3

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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):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Amortization expense charged to cost of sales	\$ 9.4	\$ 8.9	\$ 9.6
Amortization expense charged to operating expense	983.3	1,037.8	686.2
Total amortization expense	<u>\$ 992.7</u>	<u>\$ 1,046.7</u>	<u>\$ 695.8</u>

There were no impairment charges in the fiscal year ended March 31, 2021. The Company recognized impairment charges of \$2.2 million and \$3.1 million in the fiscal years ended March 31, 2020 and March 31, 2019, respectively.

Goodwill activity by segment was as follows (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 March 31, 2020		6,645.6		19.2
Additions		5.8		—
Balance at March 31, 2021	<u>\$</u>	<u>6,651.4</u>	<u>\$</u>	<u>19.2</u>

At March 31, 2021, 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 March 31, 2021, the Company has never recorded an impairment charge.

### Note 10. Other Financial Statement Details

#### Accounts Receivable

Accounts receivable consists of the following (in millions):

	March 31,	
	2021	2020
Trade accounts receivable	\$ 991.6	\$ 924.1
Other	11.3	14.8
Total accounts receivable, gross	1,002.9	938.9
Less: allowance for expected credit losses	5.2	4.9
Total accounts receivable, net	<u>\$ 997.7</u>	<u>\$ 934.0</u>

#### Inventories

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

	March 31,	
	2021	2020
Raw materials	\$ 115.7	\$ 92.3
Work in process	412.8	441.7
Finished goods	136.5	151.7
Total inventories	<u>\$ 665.0</u>	<u>\$ 685.7</u>

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.

[Table of Contents](#)**Property, Plant and Equipment**

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

	March 31,	
	2021	2020
Land	\$ 83.2	\$ 83.4
Building and building improvements	659.7	659.5
Machinery and equipment	2,251.1	2,123.1
Projects in process	102.7	100.1
Total property, plant and equipment, gross	3,096.7	2,966.1
Less: accumulated depreciation and amortization	2,242.0	2,090.0
Total property, plant and equipment, net	\$ 854.7	\$ 876.1

Depreciation expense attributed to property, plant and equipment was \$160.6 million, \$168.9 million and \$180.6 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

As discussed in Note 1, the Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount of such assets may not be recoverable. For the three years ended March 31, 2021, the Company's evaluation of its property, plant and equipment did not result in any material impairments.

**Accrued Liabilities**

Accrued liabilities consists of the following (in millions):

	March 31,	
	2021	2020
Accrued compensation and benefits	\$ 166.7	\$ 137.5
Income taxes payable	43.4	38.0
Sales related reserves	350.7	353.0
Current portion of lease liabilities	39.8	44.5
Accrued expenses and other liabilities	193.7	208.8
Total accrued liabilities	\$ 794.3	\$ 781.8

**Note 11. Leases**

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 consolidated balance sheets. There are certain immaterial finance leases recorded in the consolidated balance sheets. The Company has elected to account for the lease and non-lease components as a single lease component.

The details of the Company's total lease expense are as follows (in millions):

	Fiscal Year Ended March 31,	
	2021	2020
Operating lease expense	\$ 63.1	\$ 70.4

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

	March 31,	
	2021	2020
Other assets:		
ROU assets	\$ 154.3	\$ 119.5
Total lease assets	\$ 154.3	\$ 119.5
Accrued liabilities:		
Current portion of lease liabilities	\$ 39.8	\$ 44.5
Other long-term liabilities:		
Non-current portion of lease liabilities	125.4	94.7
Total lease liabilities	\$ 165.2	\$ 139.2

The following table presents the maturities of lease liabilities as of March 31, 2021 (in millions):

Fiscal year ending March 31,	Operating Leases
2022	\$ 48.2
2023	32.4
2024	24.2
2025	17.9
2026	16.4
Thereafter	61.4
Total lease payments	200.5
Less: Imputed lease interests	35.3
Total lease liabilities	\$ 165.2

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

	March 31, 2021
Weighted average remaining lease-term	6.88
Weighted average discount rate	4.49 %

**Note 12. Commitments and Contingencies***Purchase Obligations*

The Company has agreements for the purchase of property, plant and equipment and other goods and services including outstanding purchase commitments with the Company's wafer foundries. Commitments for construction or purchases of property, plant and equipment totaled \$143.0 million as of March 31, 2021, all of which will be due within the next year. Other purchase obligations and commitments totaled approximately \$166.9 million, which includes outstanding purchase commitments with the Company's wafer foundries and other suppliers, for delivery in the fiscal year ended March 31, 2022.

*Indemnification Contingencies*

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 \$168.1 million. There are some licensing agreements in place that do not specify indemnification limits. As of March 31, 2021, 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.

*Warranty Costs and Product Liabilities*

The Company accrues for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, the Company has experienced a low rate of payments on product claims. Although the Company cannot predict the likelihood or amount of any future claims, the Company does not believe these claims will have a material adverse effect on its financial condition, results of operations or liquidity.

*Legal Matters*

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-ROS 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. On December 11, 2018, the Court issued an order appointing the lead plaintiff in the Jackson matter. An amended complaint was filed on February 22, 2019. The 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 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. Defendants filed a motion to dismiss the amended complaint on April 1, 2019, which motion was granted in part and denied in part on March 11, 2020. Plaintiff filed a motion for class certification, which was granted by the Court. Discovery is ongoing.



*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. An amended complaint was filed on February 28, 2020, and a second amended complaint was filed on July 27, 2020. The Company and the individual defendants filed motions to dismiss, which are not currently scheduled to be heard by the Court. The Company's Audit Committee has filed a motion to dismiss.

*Governmental Investigations.* The SEC is investigating matters relating to the Company's acquisition of Microsemi. The Company believes that the investigation relates to distribution channel issues and business practices at Microsemi and the allegations made by the plaintiffs in the *Peterson v. Sanghi* lawsuit which was described in the Company's prior filings on Form 10-Q and Form 10-K and which lawsuit has been settled and dismissed. The Department of Justice, which was also investigating those matters, has informed the Company that its investigation is closed and that no further action will be taken.

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 current and future costs and damages incurred as a result of the vehicle manufacturers' airbag control unit-related recalls, with current costs and damages alleged to be about \$115 million to date. 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 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 filed individual labor actions against Atmel Rousset in a French labor court, and in 2019 a French labor court dismissed all of the employees' claims against Atmel Rousset. Plaintiffs have filed appeals requesting reconsideration of the earlier dismissals. Furthermore, these same claims have been filed by this same group of employees in a regional court in France against Microchip Technology Incorporated and Atmel Corporation. The Company, and the other defendant entities, believe 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 any of these entities is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. The defendant entities therefore intend 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. 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

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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 March 31, 2021, the Company's estimate of the aggregate potential liability that is possible but not probable is approximately \$100 million in excess of amounts accrued.

**Note 13. Income Taxes**

The income tax provision consists of the following (amounts in millions):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Pretax (loss) income:			
U.S.	\$ (301.7)	\$ (485.2)	\$ (593.4)
Foreign	641.2	635.6	797.9
	<u>\$ 339.5</u>	<u>\$ 150.4</u>	<u>\$ 204.5</u>
Current expense (benefit):			
U.S. Federal	\$ 54.8	\$ 21.1	\$ (98.0)
State	2.0	1.0	(5.3)
Foreign	72.2	48.0	14.1
Total current expense (benefit)	<u>\$ 129.0</u>	<u>\$ 70.1</u>	<u>\$ (89.2)</u>
Deferred expense (benefit):			
U.S. Federal	\$ (215.4)	\$ (127.8)	\$ 11.9
State	(22.9)	(13.2)	0.6
Foreign	99.4	(349.3)	(74.7)
Total deferred benefit	<u>(138.9)</u>	<u>(490.3)</u>	<u>(62.2)</u>
Total income tax benefit	<u>\$ (9.9)</u>	<u>\$ (420.2)</u>	<u>\$ (151.4)</u>

The Company intends to invest substantially all of its foreign subsidiary earnings, as well as its capital in its foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which the Company would incur significant, additional costs upon repatriation of such amounts. It is not practical to estimate the additional tax that would be incurred, if any, if the permanently reinvested earnings were repatriated.

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The provision for income taxes differs from the amount computed by applying the statutory federal tax rate to income before income taxes. The sources and tax effects of the differences in the total income tax provision are as follows (amounts in millions):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Computed expected income tax provision	\$ 71.3	\$ 31.5	\$ 43.0
State income taxes, net of federal benefit	(3.8)	(5.4)	(8.7)
Foreign income taxed at lower than the federal rate	(45.7)	(78.8)	(94.0)
Impact of the TCJA - one-time transition tax, net of foreign tax credits	—	—	13.1
GILTI and foreign-derived intangible income, net of credits	101.8	54.7	95.4
Business realignment of intellectual property rights	(63.8)	(334.8)	(90.6)
Net increases related to current year tax positions	49.8	20.1	9.0
Net decreases related to prior year tax positions <sup>(1)</sup>	(4.4)	(28.5)	(75.1)
Share-based compensation	(12.3)	(11.1)	(13.3)
Research and development tax credits	(48.4)	(40.8)	(27.5)
Intercompany prepaid tax asset amortization	—	—	5.2
Foreign exchange	(6.5)	(0.9)	4.6
Convertible debt settlement	(48.1)	—	—
Subpart-F income	6.4	4.1	10.7
Other	7.1	(1.7)	(13.3)
Change in valuation allowance	(13.3)	(28.6)	(9.9)
Total income tax benefit	\$ (9.9)	\$ (420.2)	\$ (151.4)

<sup>(1)</sup> The release of prior year tax positions during fiscal 2021 increased each of the basic and diluted net income per common share by \$0.02. The release of prior year tax positions during fiscal 2020 increased the basic and diluted net income per common share by \$0.12 and \$0.11, respectively. The release of prior year tax positions during fiscal 2019 increased the basic and diluted net income per common share by \$0.32 and \$0.30, respectively.

The foreign tax rate differential benefit primarily relates to the Company's operations in Thailand, Malta and Ireland. The Company's Thailand manufacturing operations are currently subject to numerous tax holidays granted to the Company based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire between fiscal 2022 and 2027, however, the Company actively seeks to obtain new tax holidays. The Company does not expect the future expiration of any of its tax holiday periods in Thailand to have a material impact on its effective tax rate. The aggregate dollar benefit derived from these tax holidays approximated \$11.1 million and \$11.4 million in fiscal 2021 and fiscal 2020, respectively. The impact of the tax holidays during fiscal 2021 increased each of the basic and diluted net income per common share by \$0.04. The impact of the tax holidays during fiscal 2020 increased the basic and diluted net income per common share by \$0.05 and \$0.04, respectively.

The Company's effective tax rate for fiscal 2021 includes a \$63.8 million tax benefit related to intra-group transfers of certain intellectual property rights, which reduced its effective tax rate by 18.8%. The tax benefit for the intra-group asset transfers primarily consisted of \$155.5 million recorded as a deferred tax asset which represents the book and tax basis difference on the transferred assets measured based on the new applicable statutory tax rate, as well as, the reversal of the pre-existing deferred tax asset of \$90.3 million, which represents the book and tax basis difference on the transferred assets measured based on applicable statutory tax rate prior to the transfer. The Company expects to be able to realize the future tax benefit of the deferred tax assets resulting from the intra-group asset transfers. It is not uncommon for taxing authorities of different countries to have conflicting views, for instance, with respect to, among other things, the manner in which the arm's length standard is applied with respect to the valuation of intellectual property rights. The taxing authorities of jurisdictions in which the Company operates may challenge its methodologies for valuing the intellectual property rights transferred, which could increase the Company's future effective income tax rate and harm future results of operations.

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The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities are as follows (amounts in millions):

	March 31,	
	2021	2020
<b>Deferred tax assets:</b>		
Inventory valuation	\$ 46.0	\$ 48.5
Net operating loss carryforward	68.0	74.8
Capital loss carryforward	6.3	9.4
Share-based compensation	46.5	39.8
Income tax credits	331.1	351.1
Property, plant and equipment	32.7	31.7
Accrued expenses	83.6	80.4
Intangible assets	1,581.5	1,694.8
Lease liabilities	37.1	20.2
Other	17.4	14.0
Gross deferred tax assets	2,250.2	2,364.7
Valuation allowances	(290.3)	(303.5)
Deferred tax assets, net of valuation allowances	1,959.9	2,061.2
<b>Deferred tax liabilities:</b>		
Convertible debt	(53.9)	(228.7)
Intangible assets	(158.1)	(365.1)
ROU assets	(34.5)	(24.3)
Other	(8.1)	(13.1)
Deferred tax liabilities	(254.6)	(631.2)
Net deferred tax asset	\$ 1,705.3	\$ 1,430.0
<b>Reported as:</b>		
Non-current deferred tax assets	\$ 1,749.2	\$ 1,748.5
Non-current deferred tax liability	(43.9)	(318.5)
Net deferred tax asset	\$ 1,705.3	\$ 1,430.0

In assessing whether it is more likely than not that deferred tax assets will be realized, the Company considers all available evidence, both positive and negative, including its recent cumulative earnings experience and expectations of future available taxable income of the appropriate character by taxing jurisdiction, tax attribute carryback and carryforward periods available for tax reporting purposes, and prudent and feasible tax planning strategies.

A summary of additions and deductions related to the valuation allowance for deferred tax asset accounts for the years ended March 31, 2021, 2020 and 2019 follows (amounts in millions):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Fiscal 2021	\$ 303.5	\$ 8.1	\$ —	\$ (21.3)	\$ 290.3
Fiscal 2020	\$ 332.1	\$ 26.0	\$ —	\$ (54.6)	\$ 303.5
Fiscal 2019	\$ 204.5	\$ 16.2	\$ 175.8	\$ (64.4)	\$ 332.1

The Company had federal, state and foreign NOL carryforwards with an estimated tax effect of \$68.0 million available at March 31, 2021. The federal, state and foreign NOL carryforwards expire at various times between fiscal 2022 and fiscal 2041, of which a portion of the NOL carryforwards do not expire. The Company had state tax credits of \$163.0 million available at March 31, 2021. These state tax credits expire at various times between fiscal 2022 and fiscal 2041. The Company had capital loss carryforwards with an estimated tax effect of \$6.3 million available at March 31, 2021. These capital loss carryforwards begin to expire in fiscal 2022. The Company had foreign tax credits of \$1.9 million available at March 31, 2021. These foreign tax credits begin to expire in fiscal 2022. The Company had credits for increasing research activity in the amount of \$85.0 million available at March 31, 2021. These credits begin to expire in fiscal 2022. The Company had U.S. prior year minimum tax credits in the amount of \$4.7 million available at March 31, 2021. The Company had refundable tax credits in foreign

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jurisdictions of \$56.6 million available at March 31, 2021. The Company had withholding tax credits in foreign jurisdictions of \$19.9 million available at March 31, 2021. These credits expire at various times between fiscal 2022 and fiscal 2024.

The Company recognizes interest and penalties related to unrecognized tax benefits through income tax expense. The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. 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 effectively 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.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. Although the Company believes that it has appropriately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different than expectations. The Company will adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate, the closing of a statutory audit period or changes in applicable tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences would impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate, as well as related net interest.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other domestic and international tax jurisdictions based on its estimate of whether, and the extent to which, the tax positions are more likely than not to be sustained based on the technical merits. 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.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits from April 1, 2018 to March 31, 2021 (amounts in millions):

	Fiscal Year Ended March 31,		
	2021	2020	2019
Beginning balance	\$ 757.3	\$ 763.4	\$ 436.0
Increases related to acquisitions	—	—	329.7
Decreases related to settlements with tax authorities	(6.0)	(1.2)	(8.3)
Decreases related to statute of limitation expirations	(10.9)	(30.9)	(16.2)
Increases related to current year tax positions	35.4	30.2	27.8
Increases (decreases) related to prior year tax positions	50.5	(4.2)	(5.6)
Ending balance	\$ 826.3	\$ 757.3	\$ 763.4

As of March 31, 2021 and March 31, 2020, the Company had accrued interest and penalties related to tax contingencies of \$83.9 million and \$74.6 million, respectively. Interest and penalties charged to operations during the fiscal year ended March 31, 2021 were \$9.3 million. Previously accrued interest and penalties that were released during the fiscal years ended March 31, 2020 and March 31, 2019 were \$13.5 million and \$37.5 million, respectively.

The Company is currently under income tax examination in various tax jurisdictions in which it operates. The years under examination range from fiscal 2007 through fiscal 2019. In some jurisdictions, the Company has received tax assessments in excess of established reserves. The Company is contesting these tax assessments, and will continue to do so, including pursuing all available remedies such as appeals and litigation, if necessary. During fiscal 2021, additional assessments were received for these issues and the Company's position remains unchanged.

The total amount of gross unrecognized tax benefits was \$826.3 million and \$757.3 million as of March 31, 2021 and March 31, 2020, respectively, of which \$720.5 million and \$654.0 million is estimated to impact the Company's effective

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tax rate, if recognized. The Company estimates that it is reasonably possible unrecognized tax benefits as of March 31, 2021 could decrease by approximately \$10.0 million in the next 12 months. Positions that may be resolved include various U.S. and non-U.S. matters.

In April 2020, the Company became aware of a withholding tax regulation that could be interpreted to apply to certain of its previous intra-group transactions. The Company evaluated whether the interpretation of this regulation could apply to its facts and circumstances, and, upon conclusion of its analysis, the Company established an immaterial reserve related to this matter during the fiscal year ended March 31, 2021.

In July 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. In the July 2015 ruling, the Tax Court concluded that the sharing of the cost of employee stock compensation in a company's cost-sharing arrangement was invalid under the U.S. Administrative Procedures Act. In June 2019, a panel of the Ninth Circuit of the U.S. Court of Appeals reversed this decision. In July 2019, Altera petitioned the U.S. Court of Appeals for the Ninth Circuit to hold an en banc rehearing of the case. In November 2019, the en banc rehearing petition was denied, and Altera has asked the Supreme Court for a judicial review. In June 2020, the U.S. Supreme Court declined to issue a writ of certiorari in *Altera v. Commissioner*, leaving intact the decision reached by the Ninth Circuit of the U.S. Court of Appeals. Based on the Ninth Circuit Opinion, the Company recorded a cumulative income tax expense of \$23.3 million in fiscal 2021.

### **Note 14. Employee Benefit Plans**

#### *Defined Benefit Plans*

The Company has defined benefit pension plans that cover certain French and German employees. Most of these defined pension plans, which were acquired in the Atmel and Microsemi acquisitions, are unfunded. Plan benefits are provided in accordance with local statutory requirements. Benefits are based on years of service and employee compensation levels. Pension liabilities and charges are based upon various assumptions, updated annually, including discount rates, future salary increases, employee turnover, and mortality rates. The Company's French pension plan provides for termination benefits paid to covered French employees only at retirement, and consists of approximately one to five months of salary. The Company's German pension plan provides for defined benefit payouts for covered German employees following retirement.

The change in projected benefit obligation and the accumulated benefit obligation, were as follows (in millions):

	Fiscal Year Ended March 31,	
	2021	2020
Projected benefit obligation at the beginning of the year	\$ 70.0	\$ 72.7
Service cost	1.6	1.7
Interest cost	1.0	0.9
Actuarial losses (gains)	8.2	(2.6)
Benefits paid	(1.5)	(1.5)
Foreign currency exchange rate changes	3.7	(1.2)
Projected benefit obligation at the end of the year	\$ 83.0	\$ 70.0
Accumulated benefit obligation at the end of the year	\$ 76.3	\$ 65.1
Weighted average assumptions:		
Discount rate	0.93 %	1.48 %
Rate of compensation increase	3.01 %	2.77 %

The Company's pension liability represents the present value of estimated future benefits to be paid. The discount rate is based on the quarterly average yield for Euros treasuries with a duration of 30 years, plus a supplement for corporate bonds (Euros, AA rating). Net actuarial losses (gains), which are included in accumulated other comprehensive loss in the Company's consolidated balance sheets, will be recognized as a component of net periodic cost over the average remaining service period.

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Future estimated expected benefit payments for fiscal year 2022 through 2031 are as follows (in millions):

Fiscal Year Ending March 31,	Expected Benefit Payments
2022	\$ 1.6
2023	1.7
2024	2.2
2025	2.4
2026	2.6
2027 through 2031	14.6
Total	\$ 25.1

The Company's net periodic pension cost for fiscal 2022 is expected to be approximately \$3.6 million.

**Note 15. Share-Based Compensation***Share-Based Compensation Expense*

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

	Fiscal Year Ended March 31,		
	2021	2020	2019
Cost of sales <sup>(1)</sup>	\$ 26.6	\$ 20.9	\$ 14.9
Research and development	96.8	82.9	72.0
Selling, general and administrative	74.9	66.4	62.3
Special charges and other, net	—	—	17.2
Pre-tax effect of share-based compensation	198.3	170.2	166.4
Income tax benefit	42.3	36.9	35.5
Net income effect of share-based compensation	\$ 156.0	\$ 133.3	\$ 130.9

<sup>(1)</sup> During the fiscal year ended March 31, 2021, \$16.7 million of share-based compensation expense was capitalized to inventory and \$26.6 million of previously capitalized share-based compensation expense in inventory was sold. During the fiscal year ended March 31, 2020, \$19.8 million of share-based compensation expense was capitalized to inventory and \$20.9 million of previously capitalized share-based compensation expense in inventory was sold. During the fiscal year ended March 31, 2019, \$17.2 million of share-based compensation expense was capitalized to inventory and \$14.9 million 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 RSUs, 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.

*Combined Incentive Plan Information*

The Company has granted RSUs and stock options to employees and non-employee members of the Board of Directors under the Company's 2004 Equity Incentive Plan (the 2004 plan). The Company uses RSUs as its primary equity incentive compensation instrument for employees. Under the 2004 plan, 32,194,859 shares of common stock have been authorized for issuance and 6,554,463 shares of common stock remain available for future grants as of March 31, 2021.

[Table of Contents](#)*Restricted Stock Units*

RSU share activity under the 2004 Plan is set forth below:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at March 31, 2018	5,672,440	\$ 50.79
Granted	1,951,408	\$ 77.83
Assumed upon acquisition	1,805,680	\$ 91.70
Forfeited	(408,242)	\$ 73.36
Vested	(2,729,324)	\$ 61.51
Nonvested shares at March 31, 2019	6,291,962	\$ 64.81
Granted	2,182,044	\$ 88.17
Forfeited	(340,659)	\$ 75.50
Vested	(2,391,294)	\$ 57.47
Nonvested shares at March 31, 2020	5,742,053	\$ 76.11
Granted	2,339,247	\$ 101.37
Forfeited	(257,055)	\$ 83.37
Vested	(1,882,336)	\$ 64.13
Nonvested shares at March 31, 2021	5,941,909	\$ 89.54

The total intrinsic value of RSUs which vested during the fiscal years ended March 31, 2021, 2020 and 2019 was \$218.5 million, \$223.9 million and \$229.3 million, respectively. The aggregate intrinsic value of RSUs outstanding at March 31, 2021 was \$922.3 million, calculated based on the closing price of the Company's common stock of \$155.22 per share on March 31, 2021. The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2022 through fiscal 2026 related to unvested share-based payment awards at March 31, 2021 is \$300.1 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 1.84 years.

*Stock Options and Stock Appreciation Rights*

Stock option and SARs activity under the Company's stock incentive plans in the three years ended March 31, 2021 is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at March 31, 2018	284,340	\$ 31.21
Assumed upon acquisition	141,751	\$ 25.86
Exercised	(140,118)	\$ 27.67
Forfeited or expired	(4,091)	\$ 39.62
Outstanding at March 31, 2019	281,882	\$ 30.16
Exercised	(130,419)	\$ 28.71
Forfeited or expired	(2,453)	\$ 20.02
Outstanding at March 31, 2020	149,010	\$ 31.59
Exercised	(77,884)	\$ 31.48
Forfeited or expired	(629)	\$ 19.47
Outstanding at March 31, 2021	70,497	\$ 31.81

The total intrinsic value of options and SARs exercised during the fiscal years ended March 31, 2021, 2020 and 2019 was \$6.5 million, \$8.4 million and \$8.3 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each equity award.

The aggregate intrinsic value of options and SARs outstanding and exercisable at March 31, 2021 was \$10.9 million. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of \$155.22 per share on March 31, 2021. As of March 31, 2021, the weighted average remaining contractual term for options and SARs outstanding and exercisable was 2.06 years.



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As of March 31, 2021 and March 31, 2020, the number of option and SAR shares exercisable was 70,497 and 149,010, respectively, and the weighted average exercise price per share was \$31.81 and \$31.59, respectively.

There were no stock options granted in the fiscal years ended March 31, 2021, 2020 and 2019.

### *Employee Stock Purchase Plan*

The Company's 2001 Employee Stock Purchase Plan and the 1994 International Employee Stock Purchase Plan (collectively referred to as the employee stock purchase plans) allows eligible employees to purchase shares of the Company's common stock at 85% of the value of its common stock on specific dates. Since the inception of the employee stock purchase plans, 17,222,291 shares of common stock have been authorized for issuance and 5,929,687 shares remain available for future purchases as of March 31, 2021.

Employees purchased 712,220 shares of common stock in the fiscal year ended March 31, 2021 for a purchase price of \$57.7 million under the employee stock purchase plans compared to 787,284 shares of common stock for a purchase price of \$55.6 million in the fiscal year ended March 31, 2020 and 549,796 shares of common stock for a purchase price of \$39.6 million in the fiscal year ended March 31, 2019. As of March 31, 2021, unrecognized share-based compensation costs related to the employee stock plans totaled \$6.3 million, which will be recognized over a period of approximately five months.

### **Note 16. Stock Repurchase Activity**

As of March 31, 2021, 15.0 million shares of common stock remained available for repurchase under the existing share repurchase program. There is no expiration date associated with the repurchase program. There were no repurchases of common stock during the fiscal years ended March 31, 2021, 2020 and 2019. Shares repurchased are recorded as treasury shares and used to fund share issuance requirements under the Company's equity incentive plans. As of March 31, 2021, the Company had approximately 11.0 million treasury shares.

### **Note 17. Accumulated Other Comprehensive Loss**

The following table presents the changes in the components of accumulated other comprehensive loss, net of tax, (AOCI) (in millions):

	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2020	\$ —	\$ (5.1)	\$ (16.5)	\$ (21.6)
Other comprehensive (loss) income before reclassifications	—	(9.4)	3.7	(5.7)
Reclassification of realized transactions	—	1.1	—	1.1
Net other comprehensive (loss) income	—	(8.3)	3.7	(4.6)
Balance at March 31, 2021	\$ —	\$ (13.4)	\$ (12.8)	\$ (26.2)
Balance 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 (loss) income before reclassifications	—	1.4	(1.8)	(0.4)
Amounts reclassified from accumulated other comprehensive loss	—	0.8	—	0.8
Net other comprehensive (loss) income	—	2.2	(1.8)	0.4
Balance at March 31, 2020	\$ —	\$ (5.1)	\$ (16.5)	\$ (21.6)

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The table below details where reclassifications of realized transactions out of accumulated other comprehensive loss are recorded on the consolidated statements of income (in millions):

Description of AOCI Component	Fiscal Year Ended March 31,			Related Statement of Income Line
	2021	2020	2019	
Unrealized losses on available-for-sale securities	\$ —	\$ —	\$ (5.6)	Other (loss) income, net
Amortization of actuarial loss	(1.1)	(0.8)	(1.0)	Other (loss) income, net
Reclassification of realized transactions, net of taxes	\$ (1.1)	\$ (0.8)	\$ (6.6)	Net income

**Note 18. Dividends**

On October 28, 2002, the Company announced that its Board of Directors had approved and instituted a quarterly cash dividend on its common stock. The Company has continued to pay quarterly dividends and has increased the amount of such dividends on a regular basis. Cash dividends paid per share were \$1.494, \$1.465 and \$1.457 during fiscal 2021, 2020 and 2019, respectively. Total dividend payments amounted to \$388.3 million, \$350.1 million and \$344.4 million during fiscal 2021, 2020 and 2019, respectively.

**EXHIBIT 3.2**

**AMENDED AND RESTATED BYLAWS**

**OF**

**MICROCHIP TECHNOLOGY INCORPORATED**

**(as amended effective March 31, 2021)**

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**AMENDED AND RESTATED BYLAWS OF  
MICROCHIP TECHNOLOGY INCORPORATED**

**(as amended effective March 31, 2021)**

**ARTICLE I  
CORPORATE OFFICES**

1.1 **Registered Office.** The registered office of the corporation shall be in the City of Dover, County of Kent, State of Delaware. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 **Other Offices.** The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

**ARTICLE II  
STOCKHOLDERS**

2.1 **Place of Meetings.** Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of Delaware. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 **Annual Meeting.** The annual meeting of stockholders shall be held, each year, on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 ***Special Meeting.*** A special meeting of the stockholders may be called at any time by the board of directors or by the chairman of the board or by one or more stockholders owning in the aggregate not less than fifty percent (50%) of the entire capital stock of the corporation issued and outstanding and entitled vote.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Section 2.5 and Article VIII, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 ***Advance Notice of Stockholder Nominees and Stockholder Business.***

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the secretary of the corporation must have received timely notice in writing from the stockholder. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety (90) calendar days before the date on which the corporation first mailed

its proxy statement to stockholders in connection with the previous year's annual meeting of stockholders; *provided, however*, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the prior year, notice by the stockholder to be timely must be so received not later than the close of business on the later of ninety (90) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. Such written notice to the secretary shall set forth, as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (iii) the class and number of shares of stock of the corporation beneficially owned by such stockholder or any Stockholder Associated Person, (iv) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (v) any material interest of such stockholder or any Stockholder Associated Person in such business, (vi) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry the proposal and (vii) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his or her capacity as a proponent to a stockholder proposal (such information provided and statements made as required by clauses (i) through (vii), a "**Business Solicitation Statement**"). Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten (10) days following the record date for the



determination of stockholders entitled to vote at the meeting to disclose the information contained in clauses (iii) and (iv) above as of the record date. For purposes of this Section 2.4, a "**Stockholder Associated Person**" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii). Notwithstanding any provision in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this paragraph (a). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (a), and, if he or she should so determine, he or she shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(b) Only persons who are nominated in accordance with the procedures set forth in this paragraph (b) shall be eligible for election or re-election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (b). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation. To be considered timely, (i) in the case of an annual meeting, such notice must be delivered in accordance with the provisions of paragraph (a) of this Section 2.4, and (ii) in the case of a special meeting, such notice must be received by the secretary of the corporation not later than the close of business on the later of the 90th day prior to such special

meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of such person, (E) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe a fiduciary duty under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (a) of this Section 2.4 (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph). At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee and such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee, and in the absence of the furnishing of such information if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(b). No person shall be eligible for election or re-

election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (b). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he or she should so determine, he or she shall so declare at the meeting, and the defective nomination shall be disregarded.

2.5 **Notice of Stockholders Meetings.** All notices of meetings of stockholders shall be in writing and shall be sent or otherwise given in accordance with Article VIII of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of Delaware or the certificate of incorporation of the corporation). The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.6 **Quorum.** At any meeting of the stockholders, the holders of a majority, present in person or by proxy, of all of the shares of the stock entitled to vote at the meeting shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law. Where a separate vote by a class or classes is required, a majority, present in person or by proxy, of the shares of such class or classes entitled to take action with respect to that vote on that matter shall constitute a quorum. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, those present at such adjourned meeting shall constitute a quorum (but in no event shall a quorum consist of less than one-third

of the shares entitled to vote at the meeting), and all matters shall be determined by a majority of the votes cast at such meeting, except as otherwise required by law.

**2.7 Adjourned Meeting; Notice.** When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

**2.8 Voting.** The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Each stockholder shall have one (1) vote for every share of stock entitled to vote that is registered in his or her name on the record date for the meeting (as determined in accordance with Section 2.11 of these bylaws), except as otherwise provided herein or required by law.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or provided herein, all other matters shall be determined by a majority of the votes cast affirmatively or negatively; except that a nominee for director shall be elected to the board of directors if the votes cast for such nominee's election exceed the votes cast against such nominee's election. For this purpose, votes cast shall exclude abstentions, withheld votes or broker non-votes with respect to that director's election. Notwithstanding the immediately preceding sentence, in the event of a contested election of directors, directors shall be elected by the vote of a plurality of the votes cast. For the purpose of this bylaw, a contested election shall mean any election of directors in which the number of candidates for election as director exceeds the number of directors to be elected. If directors are to be elected by a plurality of the votes cast, stockholders shall not be permitted to vote against a nominee.

2.9 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.10 **Stockholder Action by Written Consent Without a Meeting.** Any action required or able to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation at its registered office in Delaware, its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery to the corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days after the date the earliest dated consent is delivered to the corporation, a written consent or consents signed by holders of a sufficient number of votes to take action are delivered to the corporation in the manner prescribed in the first paragraph of this section.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting

thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.11 **Record Date for Stockholder Notice; Voting; Giving Consents.** In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall neither precede nor be more than ten (10) days after the date upon which such resolution is adopted by the board of directors. Any stockholder of record seeking to have the stockholders authorize or take action by written consent shall, by written notice to the secretary, request the board of directors to fix a record date. The board of directors shall promptly, but in all events within ten (10) days after the date on which such notice is received, adopt a resolution fixing the record date.

If the board of directors has not fixed a record date within such time, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in the manner prescribed in the first paragraph of Section 2.10 of these bylaws. If the board of directors has not fixed a record date within such time and prior action by the board of directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the board of directors adopts the resolution taking such prior action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.12 **Proxies.** Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him or her by a written proxy or an electronic transmission permitted by law, filed in accordance with the procedure established for the meeting or taking of action in writing, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 2.12 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.13 **List of Stockholders Entitled to Vote.** The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and

showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then a list of stockholders entitled to vote at the meeting shall be produced and kept at the time and place of the meeting during the whole time thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then such list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

2.14 **Conduct of Business.** The Board of Directors will appoint a Chairman of the meeting, and he/she shall be authorized to be the final authority on all matters of procedure at the meeting. The rules provided below will govern the conduct of the meeting of stockholders and will be strictly enforced to maintain an orderly meeting. Robert's Rules of Order will not be applicable and will not be utilized.

(i) *Method of Obtaining the Floor.* Stockholders who desire to address the meeting must raise their hands and wait to be recognized by the Chairman. Only when a stockholder is recognized as having the floor may he or she address the meeting.

(ii) *Discussion.* Persons addressing the meeting must limit their remarks to the issue then under consideration by the stockholders and to not more than five minutes in duration. A stockholder will be permitted to address the meeting on a particular issue not more than three times.



(iii) *Stockholder Proposals*. Stockholders will only be permitted to address the meeting on proposals that are included in the proxy statement and proxy relating to that meeting.

2.15 *Inspectors of Election*. The corporation may, and to the extent required by law, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

2.16 *Inspectors of Election and Procedures for Counting Written Consents*. Within three (3) business days after receipt of the earliest dated consent delivered to the corporation in the manner provided in Section 228(c) of the General Corporation Law of Delaware or the determination by the board of directors of the corporation that the corporation should seek corporate action by written consent, as the case may be, the secretary may engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The cost of retaining inspectors of election shall be borne by the corporation.

Consents and revocations shall be delivered to the inspectors upon receipt by the corporation, the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the corporation (the "Soliciting Stockholders") or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. As soon as practicable after the earlier of (i) sixty (60) days after the date of the earliest dated consent delivered to the corporation in the manner provided in Section 228(c) of the General Corporation Law of Delaware or (ii) a written request therefor by the corporation or the Soliciting Stockholders (whichever is soliciting consents) (which request, except in the case of corporate action by written consent taken pursuant to the

solicitations of not more than ten (10) persons, may be made no earlier than after such reasonable amount of time after the commencement date of the applicable solicitation of consents as is necessary to permit the inspectors to commence and organize their count, but in no event less than five (5) days after such commencement date), notice of which request shall be given to the party opposing the solicitation of consents, if any, which request shall state that the corporation or Soliciting Stockholders, as the case may be, have a good faith belief that the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents has been received in accordance with these bylaws, the inspectors shall issue a preliminary report to the corporation and the Soliciting Stockholders stating: (i) the number of valid consents; (ii) the number of valid revocations; (iii) the number of valid and unrevoked consents; (iv) the number of invalid consents; (v) the number of invalid revocations; and (vi) whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the corporation and the Soliciting Stockholders shall agree to a shorter or longer period, the corporation and the Soliciting Stockholders shall have 48 hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within 48 hours after the inspectors' issuance of the preliminary report, the inspectors shall issue to the corporation and the Soliciting Stockholders their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the corporation or the Soliciting Stockholders issue written notice of an intention to challenge the inspectors' preliminary report within 48 hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the corporation and the Soliciting Stockholders, which report shall contain the information included in the preliminary report, plus all changes made to the vote totals as a result of the challenge and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents. A copy of the final report of the

inspectors shall be included in the book in which the proceedings of meetings of stockholders are recorded.

2.17 *Election Not To Be Subject to Arizona Control Share Acquisitions Statute.* The corporation elects not to be subject to Title 10, Chapter 23, Article 2 of the Arizona Revised Statutes relating to "Control Share Acquisitions."

2.18 *Proxy Access for Director Nominees.*

(a) *Inclusion of Stockholder Nominees in Proxy Materials.* Whenever the board of directors solicits proxies with respect to the election of directors at an annual meeting (beginning with the annual meeting to be held in 2020), subject to the provisions of this Section 2.18, the corporation will include in its proxy materials for such annual meeting, in addition to any persons nominated for election by the board of directors or a committee appointed by the board of directors, the name, together with the Required Information (as defined below), of any person properly nominated for election (a "**Stockholder Nominee**") to the board of directors by an Eligible Stockholder (as defined below). An Eligible Stockholder must expressly elect, at the time of providing the notice required by this Section 2.18 (the "Nomination Notice"), to have each nominee of such Eligible Stockholder included in the corporation's proxy materials pursuant to this Section 2.18. For the avoidance of doubt, if a Stockholder Nominee is included in the corporation's proxy materials for an annual meeting, then the corporation will also include such Stockholder Nominee on (i) any ballot distributed at such annual meeting; (ii) the corporation's proxy card; and (iii) any other format through which the corporation permits proxies to be submitted.

(b) *Definition of Eligible Stockholder.* An "**Eligible Stockholder**" is a stockholder, or a group of no more than 20 stockholders, of the corporation that has satisfied (individually or, in the case of a group, collectively) all applicable conditions and has complied with all applicable procedures, in each case as set forth in this Section 2.18. No person may be a member of more than one group of persons constituting an Eligible Stockholder. A record holder acting on behalf of one or more beneficial owners will not be counted separately as a stockholder with respect to the shares owned by beneficial owners on whose behalf such record holder has been directed in writing to act, but each such beneficial owner will

be counted separately, subject to the other provisions of this Section 2.18, for purposes of determining the number of stockholders whose holdings may be considered as part of an Eligible Stockholder's holdings. For purposes of this Section 2.18, two or more funds or trusts will be treated as one stockholder or beneficial owner (a "**Qualifying Fund**") if they are (i) under common management and investment control; (ii) under common management and funded primarily by the same employer; or (iii) a "group of investment companies," as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended.

(c) **Required Information.** For purposes of this Section 2.18, the "**Required Information**" that the corporation will include in its proxy materials is (i) the information concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the corporation's proxy statement by the rules and regulations of the Securities and Exchange Commission (the "**SEC**") promulgated under the 1934 Act; and (ii) if the Eligible Stockholder so elects, one or more Supporting Statements (as defined below).

(d) **Delivery of Nomination Notice.** To be timely, a Nomination Notice must be delivered to, or mailed and received at, the principal executive offices of the corporation not less than 120 days nor more than 150 days prior to the anniversary of the day on which the corporation's proxy statement relating to the immediately preceding annual meeting was first released to stockholders. No adjournment, postponement or other delay of an annual meeting, or any public announcement thereof, will commence a new time period (or extend any time period) for the giving of a Nomination Notice.

(e) **Maximum Number of Stockholder Nominees.**

(i) *Maximum Number; Reductions.* The maximum aggregate number of Stockholder Nominees that will be included in the corporation's proxy materials with respect to an annual meeting will depend on the number of directors to be elected at such annual meeting. Specifically, in the event that the number of directors to be elected at the annual meeting is seven (7) or less, the maximum aggregate number of Stockholder Nominees that will be included in the corporation's proxy materials with respect to such annual meeting shall be one (1) and, if the number of directors to be elected at the

annual meeting is greater than seven (7), the maximum aggregate number of Stockholder Nominees that will be included in the corporation's proxy materials with respect to such annual meeting will not exceed the greater of (A) two or (B) 20 percent of the number of directors in office as of the last day on which a Nomination Notice may be delivered pursuant to this Section 2.18, or if such amount is not a whole number, then the closest whole number below 20 percent. This maximum number will be reduced by (1) the number of persons serving as directors or as nominees for director who, in either case, were elected or appointed to the board of directors or will be included in the corporation's proxy materials as an unopposed (by the corporation) nominee pursuant to an agreement, arrangement or other understanding with a stockholder or group of stockholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of shares of common stock of the corporation by such stockholder or group of stockholders from the corporation), other than any director whose term of office will expire at such annual meeting and who is not seeking (or agreeing) to be nominated at such annual meeting for another term of office; (2) any Stockholder Nominee whose name was submitted by an Eligible Stockholder for inclusion in the corporation's proxy materials pursuant to this Section 2.18 but either (a) is subsequently withdrawn, disregarded or declared invalid or ineligible; or (b) that the board of directors or a committee appointed by the board of directors decides to nominate for election; (3) the number of incumbent directors (as of the last day on which a Nomination Notice may be delivered pursuant to this Section 2.18) who were Stockholder Nominees at any of the preceding three annual meetings (including any individual covered under clause (2) above) and whose election at the upcoming annual meeting is being recommended by the board of directors; and (4) the number of persons nominated in accordance with Section 2.4 (whether or not such nomination is subsequently withdrawn) at the annual meeting.

(ii) *Impact of Vacancies.* If (A) one or more vacancies for any reason occurs on the board of directors after the last day on which a Nomination Notice may be delivered pursuant to this Section 2.18 but before the date of the annual meeting and (B) the board of directors resolves to reduce the size of the board of directors in connection with such vacancy, then the maximum number of Stockholder Nominees will be calculated based on the number of directors in office as so reduced.

(iii) *Ranking of Stockholder Nominees.* Any Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the corporation's proxy materials must rank its Stockholder Nominees in its Nomination Notice based on the order in which the Eligible Stockholder desires that such Stockholder Nominees be selected for inclusion in the corporation's proxy materials. If the number of Stockholder Nominees submitted by Eligible Stockholders exceeds the maximum number of nominees provided for pursuant to Section 2.18(e)(i), then the highest-ranking qualifying Stockholder Nominee of each Eligible Stockholder will be selected by the corporation for inclusion in the corporation's proxy materials until the maximum number of Stockholder Nominees is reached, going in order by the number (largest to smallest) of shares of common stock of the corporation that each Eligible Stockholder disclosed as Owned (as defined below) in its Nomination Notice. If the maximum number of Stockholder Nominees is not reached after the highest-ranking qualifying Stockholder Nominee of each Eligible Stockholder has been selected, then this process will continue with the next highest-ranked Stockholder Nominees as many times as necessary, following the same order each time, until the maximum number is reached.

(f) **Ownership.** For purposes of this Section 2.18, an Eligible Stockholder will be deemed to "Own" only those outstanding shares of common stock of the corporation as to which the Eligible Stockholder possesses both (i) the full voting and investment rights pertaining to the shares; and (ii) the full economic interest in (including the opportunity for profit and risk of loss on) such shares. The number of shares calculated in accordance with the prior sentence will not include any shares (A) sold by such Eligible Stockholder or any of its affiliates in any transaction that has not been settled or closed, including any short sale; (B) borrowed by such Eligible Stockholder or any of its affiliates for any purpose; (C) purchased by such Eligible Stockholder or any of its affiliates subject to an agreement to resell; or (D) subject to any option, warrant, forward contract, swap, contract of sale, or other derivative or similar agreement entered into by such Eligible Stockholder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of common stock of the corporation, in any such case which instrument or agreement has, or is intended to have, or if exercised would have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, the full right to vote or direct the voting of any such shares by the

Eligible Stockholder or its affiliates; or (2) hedging, offsetting or altering to any degree any gain or loss arising from the full economic ownership of such shares by such Eligible Stockholder or its affiliates. A stockholder will “Own” shares held in the name of a nominee or other intermediary so long as the stockholder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A stockholder’s Ownership of shares will be deemed to continue during any period in which the stockholder has (a) loaned such shares so long as the stockholder has the power to recall such loaned shares on no more than five business days’ notice and includes with the Nomination Notice an agreement that it (i) will promptly recall such loaned shares upon being notified by the corporation that any of its Stockholder Nominees will be included in the corporation’s proxy materials and (ii) will continue to hold such recalled shares through the date of the annual meeting; or (b) delegated any voting power by means of a proxy, power of attorney, or other instrument or arrangement that is revocable at any time by the stockholder. The terms “Owned,” “Owning,” “Ownership” and other variations of the word “Own” will have correlative meanings. For purposes of this Section 2.18, the term “affiliate” will have the meaning given to it in Rule 405 promulgated under the Securities Act of 1933 (the “**Securities Act**”).

(g) *Eligible Stockholder Requirements.*

(i) *Ownership Requirement.* To make a nomination pursuant to this Section 2.18, an Eligible Stockholder must have Owned continuously for at least three years (the “**Holding Period**”) a number of shares representing at least three percent of the corporation’s common stock (such required number of shares, the “**Required Shares**”). For purposes of determining whether the Eligible Stockholder owned the Required Shares for the Holding Period, the number of shares of common stock will be determined by reference to the corporation’s most recent periodic filings with the SEC during the Holding Period prior to the submission of the Eligible Stockholder’s Notice. The Required Shares must also be Owned continuously as of (i) the date on which the Nomination Notice is delivered to, or mailed and received at, the principal executive offices of the corporation in accordance with this Section 2.18; (ii) the record date for determining stockholders entitled to vote at the annual meeting; and (iii) the date of the annual meeting.

(ii) *Additional Requirements for Groups of Stockholders.* If a group of stockholders aggregates Ownership of shares in order to meet the requirements under this Section 2.18, then (i) all shares held by each stockholder constituting their contribution to the Required Shares must have been held by that stockholder continuously for at least the Holding Period, and must also be Owned continuously as of (A) the date on which the Nomination Notice is delivered to, or mailed and received at, the principal executive offices of the corporation in accordance with this Section 2.18; (B) the record date for determining stockholders entitled to vote at the annual meeting; and (C) the date of the annual meeting; (ii) each provision in this Section 2.18 that requires the Eligible Stockholder to provide any written statements, representations, undertakings, agreements or other instruments or to meet any other conditions will be deemed to require each stockholder that is a member of such group to provide such statements, representations, undertakings, agreements or other instruments and to meet such other conditions (except that the members of such group may aggregate their stockholdings in order to meet the Required Shares); and (iii) a breach of any obligation, agreement or representation under this Section 2.18 by any member of such group will be deemed a breach by the Eligible Stockholder.

(h) *Information to be Provided by an Eligible Stockholder.* Within the time period specified for providing the Nomination Notice, an Eligible Stockholder (which, for purposes of this Section 2.18(h), will be deemed to include any beneficial owner on whose behalf the nomination is made) making a nomination pursuant to this Section 2.18 must provide the following information in writing to the Secretary of the corporation at the principal executive offices of the corporation:

(i) the name and address of the Eligible Stockholder;

(ii) a statement by the Eligible Stockholder (A) setting forth and certifying as to the number of shares of common stock of the corporation that it Owns and has Owned continuously during Holding Period; (B) agreeing to continue to Own the Required Shares through the date of annual meeting; and (C) indicating whether it intends to continue to own the Required Shares for at least one year following the annual meeting (it being understood that this statement will not be deemed to impose any obligation on the Eligible Stockholder to hold any of the Required Shares following the annual meeting);



(iii) in the case of a nomination by a group of stockholders that together is an Eligible Stockholder, (A) the designation by all group members of one group member that is authorized to receive communications, notices and inquiries from the corporation and to act on behalf of all such members with respect to the nomination and all related matters (including any withdrawal of the nomination); (B) the written acceptance by such group member of such designation; and (C) the address, phone number and email address of such group member,

(iv) one or more written statements from each record holder of the Required Shares (and from each intermediary through which the Required Shares are or have been held during the Holding Period) verifying that, as of a date within seven calendar days prior to the date that Nomination Notice is delivered or received at the principal executive offices of the corporation, the Eligible Stockholder then Owns, and has Owned continuously for the Holding Period, the Required Shares;

(v) an undertaking by the Eligible Stockholder to provide, within seven calendar days after (A) the record date for the annual meeting (if, prior to such record date, the corporation (1) has made disclosure of the record date in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the SEC pursuant to Section 13, Section 14 or Section 15(d) of the 1934 Act; or (2) delivered a written notice (including by email) of the record date to the Eligible Stockholder) or (B) the date on which the corporation delivered to the Eligible Stockholder written notice (including by email) of the record date (if such notice is provided after the record date), one or more written statements from each record holder of the Required Shares (and from each intermediary through which the Required Shares are or have been held during the Holding Period) verifying the Eligible Stockholder's continuous Ownership of the Required Shares through the record date;

(vi) in the case of a Qualifying Fund whose share Ownership is counted for purposes of qualifying as an Eligible Stockholder, documentation reasonably satisfactory to the board of directors that demonstrates that such Qualifying Fund meets the requirements of a Qualifying Fund;

(vii) the information, agreements, certifications, representations and other documents required to be set forth in or included with a stockholder's notice of a nomination pursuant to Section 2.4;

(viii) a copy of the Schedule 14N that has been or is concurrently being filed by such Eligible Stockholder with the SEC as required by Rule 14a-18 under the 1934 Act (or any successor rule);

(ix) a representation and undertaking that (A) the Eligible Stockholder (1) did not acquire, and is not holding, securities of the corporation for the purpose or with the effect of influencing or changing control of the corporation; (2) has not nominated, and will not nominate, for election to the board of directors at the annual meeting any person other than any Stockholder Nominees being nominated by it pursuant to this Section 2.18; (3) has not engaged, and will not engage, in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the 1934 Act (or any successor rule) in support of the election of any individual as a director at the annual meeting (other than its Stockholder Nominees or a nominee of the board of directors); (4) has not distributed, and will not distribute, to any stockholder any form of proxy for the annual meeting other than the form distributed by the corporation; (5) has complied, and will comply, with all laws, rules and regulations applicable to any actions taken pursuant to this Section 2.18, including the nomination of its Stockholder Nominees and any permissible solicitation in connection with the annual meeting; and (6) consents to the public disclosure of the information provided pursuant to this Section 2.18; and (B) the facts, statements and other information in all communications with the corporation and its stockholders by the Eligible Stockholder are, and will be, true and correct in all material respects and do not, and will not, omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(x) an undertaking that the Eligible Stockholder agrees to (A) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the stockholders of the corporation or out of the information that the Eligible Stockholder provides to the corporation; (B) indemnify and hold harmless the corporation and each of its

directors, officers, employees, agents and affiliates individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers, employees, agents or affiliates arising out of any nomination, solicitation or other activity by the Eligible Stockholder in connection with its efforts to elect any Stockholder Nominees pursuant to this Section 2.18; (C) comply with all requirements of this Section 2.18; and (D) upon request, provide to the corporation within five business days after such request, but in any event prior to the date of the annual meeting, such additional information as is reasonably requested by the corporation (including any information reasonably necessary to verify the Eligible Stockholder's continuous Ownership of the Required Shares for the Holding Period and through the date of the annual meeting).

(i) ***Representations and Agreement of any Stockholder Nominee.***

(i) *Materials Required to be Provided.* Within the time period specified in this Section 2.18 for delivering the Nomination Notice, each Stockholder Nominee must deliver to the Secretary of the corporation a written representation and agreement that the Stockholder Nominee (A) other than as disclosed to the corporation, (1) is not, and will not become, a party to any agreement, arrangement or understanding with, and has not given, and will not give, any commitment or assurance to, any person or entity as to how such Stockholder Nominee, if elected as a director, will act or vote on any issue or question; and (2) is not, and will not become, a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Stockholder Nominee or director; (B) if elected, will comply with the corporation's corporate governance guidelines, code of ethics, share ownership and trading policies and guidelines, and any other policies and guidelines of the corporation applicable to directors, as well as any applicable law, rule or regulation or listing requirement; (C) consents to being named in the corporation's proxy statement for the annual meeting as a nominee of the applicable Eligible Stockholder or of the board of directors; (D) agrees to serve as a director if elected; (E) consents to the public disclosure of the information provided pursuant to this

Section 2.18; and (F) represents that such Stockholder Nominee intends to serve as director of the corporation for the full term if so elected.

(ii) *Additional Materials.* At the written request of the corporation, the Stockholder Nominee must promptly, but in any event within five business days of such request, submit all (A) completed and signed questionnaires required of the corporation's directors, nominees for director, and officers; and (B) additional information requested by the corporation (1) as may be reasonably necessary to permit the board of directors or any of its committees to determine if such Stockholder Nominee (a) is independent under the listing standards of the principal U.S. exchange upon which the corporation's common stock is listed, any applicable rules of the SEC and any publicly disclosed standards used by the board of directors in determining and disclosing the independence of the corporation's directors (collectively, the "**Applicable Independence Standards**"); (b) is eligible to serve as a director of the corporation; (c) has any direct or indirect relationship with the corporation; and (d) is not, and has not been, subject to any event specified in Item 401(f) of Regulation S-K promulgated under the Securities Act (or any successor rule) or any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act (or any successor rule); and (2) that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such Stockholder Nominee.

(j) *Supporting Statement.* For each of its Stockholder Nominees, the Eligible Stockholder may provide to the Secretary of the corporation, within the time period specified for providing the Nomination Notice, a written statement, not to exceed 500 words, for inclusion in the corporation's proxy statement for the annual meeting in support of the candidacy of such Stockholder Nominee (a "**Supporting Statement**"). No Supporting Statement may include any images, charts, pictures, graphic presentations or similar items.

(k) *True, Correct and Complete Information.* If any information or communications provided by any Eligible Stockholder or Stockholder Nominee to the corporation or its stockholders is not, when provided, or thereafter ceases to be, true, correct and complete in all material respects (including omitting a material fact necessary to make the statements made, in light of the circumstances

under which they were made, not misleading), then such Eligible Stockholder or Stockholder Nominee, as the case may be, must promptly notify the Secretary of the corporation in writing and provide the information that is required to make such information or communication true, correct, complete and not misleading. In addition, any person or entity providing any information to the corporation pursuant to this Section 2.18 must further update and supplement such information, if necessary, so that all such information is true and correct as of the record date for the annual meeting and as of the date that is 10 business days prior to the annual meeting or any adjournment, postponement or other delay thereof. Any update or supplement (or a written certification that no such updates or supplements are necessary and that the information previously provided remains true and correct as of the applicable date) pursuant to this Section 2.18(k) must be delivered to, or mailed and received by, the Secretary of the corporation at the principal executive offices of the corporation no later than (i) five business days after the record date for the annual meeting (in the case of any update and supplement required to be made as of the record date); and (ii) seven business days prior to the date of the annual meeting or any adjournment, postponement or other thereof (in the case of any update and supplement required to be made as of 10 business days prior to the annual meeting). No notification, update or supplement provided pursuant to this Section 2.18(k) or otherwise will be deemed to cure any defect in any previously provided information or communications or limit the remedies available to the corporation relating to any such defect (including the right to omit a Stockholder Nominee from its proxy materials).

(l) ***Disqualifications and Exclusions of Stockholder Nominees.***

(i) *Bases for Disqualifying or Excluding Stockholder Nominees.* Notwithstanding anything to the contrary in this Section 2.18, the corporation will not be required to include a Stockholder Nominee in its proxy materials (A) if the Eligible Stockholder who has nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a “participant” in another person’s, “solicitation” (within the meaning of Rule 14a-1(l) under the 1934 Act (or any successor rule)) in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominees or a nominee of the board of directors; (B) who is not independent under the Applicable Independence Standards as of the date on which the Nomination Notice is delivered to, or

mailed and received at, the principal executive offices of the corporation, as determined in good faith by the board of directors or any of its committees; (C) whose election as a member of the board of directors would cause the corporation to be in violation of these Bylaws, the Certificate of Incorporation, the rules and listing standards of the principal exchanges upon which the corporation's shares of common stock are listed or traded, or any applicable law, rule or regulation; (D) who is or has been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914; (E) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past 10 years; (F) who is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act (or any successor rule); (G) if such Stockholder Nominee dies, becomes disabled or otherwise becomes ineligible for inclusion in the corporation's proxy materials pursuant to this Section 2.18 or otherwise becomes unavailable for election at the annual meeting (including because such Stockholder Nominee is no longer willing to serve on the board of directors); (H) if such Stockholder Nominee or the Eligible Stockholder who has nominated such Stockholder Nominee has provided information to the corporation with respect to such nomination that was untrue in any material respect or omitted to state a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading, as determined by the board of directors; (I) if such Stockholder Nominee, or the Eligible Stockholder who has nominated such Stockholder Nominee, otherwise contravenes any of the agreements or representations made by such Stockholder Nominee or Eligible Stockholder, as applicable, or fails to comply with its obligations pursuant to this Section 2.18; (J) if the Eligible Stockholder who has nominated such Stockholder Nominee ceases to be an Eligible Stockholder for any reason, including, but not limited to, not Owning the Required Shares through the date of the annual meeting; or (K) if such Stockholder Nominee and the Eligible Stockholder (or a representative thereof) or, in the case of a nomination by a group of stockholders, the representative designated by the group in accordance with Section 2.18(h)(iii), do not appear at the annual meeting to, applicable, present the Stockholder Nominee for election.

(ii) *Process Following Disqualification or Exclusion.* Following any determination in accordance with Section 2.18(l)(i), (A) the corporation will not be required to include in

its proxy materials any successor or replacement nominee proposed by the applicable Eligible Stockholder or any other Eligible Stockholder; (B) to the extent feasible, the corporation may remove the information concerning a Stockholder Nominee and any related Supporting Statement (or portion thereof) from its proxy materials or otherwise communicate to its stockholders that such Stockholder Nominee will not be eligible for election at the annual meeting; and (C) the board of directors or the person presiding at the annual meeting will declare the nomination of such Stockholder Nominee to be invalid and such nomination will be disregarded notwithstanding that proxies in support of such Stockholder Nominee may have been received by the corporation.

(m) **Filing Obligation.** The Eligible Stockholder (including any person or entity who Owns shares of common stock of the corporation that constitute part of the Ownership of such Eligible Stockholder for purposes of meeting the Required Shares) must file with the SEC any solicitation of the corporation's stockholders relating to the annual meeting at which the Stockholder Nominee will be nominated, regardless of whether any such filing is required under Regulation 14A of the 1934 Act (or any successor rule) or whether any exemption from filing is available for such solicitation under Regulation 14A of the 1934 Act.

(n) **Omitted Disclosure by the Corporation.** Notwithstanding anything to the contrary contained in this Section 2.18, the corporation may omit from its proxy materials any information or Supporting Statement (or portion thereof) that it, in good faith, believes (i) is not true in all material respects or omits a material statement necessary to make such information or Supporting Statement (or portion thereof) not misleading; (ii) directly or indirectly impugns the character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to, any person; or (iii) violates any applicable law, rule, regulation or listing standard.

(o) **No Limitation on the Corporation.** Nothing in this Section 2.18 will limit the corporation's ability to (i) solicit against any Stockholder Nominee; (ii) include in its proxy materials its own statements or other information relating to any Eligible Stockholder or Stockholder Nominee

(including any information provided to the corporation pursuant to this Section 2.18); or (iii) include in its proxy materials any Stockholder Nominee as a nominee of the board of directors.

(p) ***Exclusive Method for Proxy Access.*** This Section 2.18 provides the exclusive method for a stockholder to include nominees for election to the board of directors in the corporation's proxy materials.

### **ARTICLE III**

#### **DIRECTORS**

3.1 ***Powers.*** Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 ***Number of Directors.*** The number of directors of the corporation shall be eight (8). This number may be changed by a duly adopted amendment to the certificate of incorporation or by an amendment to this bylaw adopted by resolution of the board of directors or by the stockholders.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ***Election, Qualification and Term of Office of Directors.*** Except as provided in Section 3.4 of these bylaws, at each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the General Corporation Law of Delaware.



Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed.

Nominations for election to the board of directors of the corporation at an annual meeting of stockholders may be made by the board or on behalf of the board by a nominating committee appointed by the board, or by any stockholder of the corporation entitled to vote for the election of directors at such meeting. Such nominations, other than those made by or on behalf of the board, shall be made by notice in writing in accordance with Section 2.4(b) of these bylaws.

The chairman of the annual meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure. If such determination and declaration is made, the defective nomination shall be disregarded.

3.4 ***Resignation and Vacancies***. Any director may resign at any time upon written notice or electronic transmission to the corporation. When one or more directors so resigns and the resignation is effective at a future date, only a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled only by a majority of the

directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

**3.5 *Place of Meetings; Meetings by Telephone.*** The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

**3.6 *Regular Meetings.*** Regular meetings of the board of directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the board of directors and publicized among all directors. A notice of each regular meeting shall not be required.

3.7 **Special Meetings; Notice.** Special meetings of the board of directors for any purpose or purposes may be called at any time by the president or secretary of the corporation, or by any two of the directors then in office and shall be held at a place, on a date and at a time as such officer or such directors shall fix. Notice of the place, date and time of special meetings, unless waived, shall be given to each director by mailing written notice not less than two (2) days before the meeting or by sending a facsimile transmission or electronic mail containing the same not less than two (2) hours before the time of the holding of the meeting. If the circumstances warrant, notice may also be given personally or by telephone not less than two (2) hours before the time of the holding of the meeting. Oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.8 **Quorum.** At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at

the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 ***Adjourned Meeting; Notice.*** If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.11 ***Board Action by Written Consent Without a Meeting.*** Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Any person (whether or not then a director) may provide, whether through instruction to an agent or otherwise, that a consent to action will be effective at a future time (including a time determined upon the happening of an event), no later than sixty (60) days after such instruction is given or such provision is made and such consent shall be deemed to have been given for purposes of this Section 3.11 at such effective time so long as such person is then a director and did not revoke the consent prior to such time. Any such consent shall be revocable prior to its becoming effective.

3.12 ***Fees and Compensation of Directors.*** Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance of each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

### 3.13 *Loans*

(a) ***No Loans to Directors or Executive Officers.*** To the extent provided under the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, the corporation may not, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for the extension of credit, or renew an extension of credit, in the form of a personal loan, to, or for any director or executive officer (or equivalent thereof) in contravention of the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder.

(b) ***Approval of Loans to Officers.*** Except as set forth in Section 3.13(a) above, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.14 ***Removal of Directors.*** Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

3.15 ***Conduct of Business.*** At any meeting of the board of directors, business shall be transacted in such order and manner as the board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law.

3.16 **Presumption of Assent.** A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

#### **ARTICLE IV COMMITTEES**

4.1 **Committees of Directors.** The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any

other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), (ii) adopt an agreement of merger or consolidation under Section 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, a supplemental resolution of the board of directors, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 ***Committee Minutes.*** Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 ***Meetings and Action of Committees.*** Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment and notice of adjournment), and Section 3.11 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolutions of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

**ARTICLE V**  
**OFFICERS**

5.1 **Officers.** The officers of the corporation shall be a chief executive officer, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, a president, one or more vice presidents, one or more assistant secretaries, a controller, one or more assistant controllers, a treasurer, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 **Appointment of Officers.** The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or 5.5 of these bylaws, shall be appointed by the board of directors.

5.3 **Subordinate Officers.** The board of directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as such chief executive officer or president, as applicable, or the board of directors may from time to time determine.

5.4 **Removal and Resignation of Officers.** Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by the chief executive officer or any other officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective.



5.5 **Vacancies in Offices.** Any vacancy occurring in any office of the corporation shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 **Chairman of the Board.** The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him or her by the board of directors or as may be prescribed by these bylaws. If there is no chief executive officer or president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 **Chief Executive Officer.** Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, the chief executive officer of the corporation shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He or she shall have the general powers and duties of management usually vested in the office of the chief executive officer of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 **President.** Subject to the supervision, direction and control of the chief executive officer, if there be such an officer, the president shall have general supervision, direction, and control of the business and the officers of the corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.9 **Vice Presidents.** In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively

by the board of directors, these bylaws, the chief executive officer, the president or the chairman of the board.

5.10 **Secretary.** The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.11 **Chief Financial Officer.** The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit, or cause to be deposited, all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors or the chief executive officer. He or she shall disburse, or cause to be disbursed, the funds of the corporation as may be ordered by the board of directors or the chief executive officer, shall render to

the chief executive officer, the president and directors, whenever they request it, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors, the chief executive officer or these bylaws. The duties of the chief financial officer may be allocated by the board of directors or the chief executive officer among one or more persons, in its discretion.

5.12 **Treasurer.** The treasurer shall have such powers and discharge such duties relating to the financial aspects of the corporation's business as may be prescribed by the board of directors or the chief financial officer.

5.13 **Assistant Secretary.** The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.14 **Assistant Treasurer.** The assistant treasurer, or, if there is more than one, the assistant treasurers in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.15 **Authority and Duties of Officers.** In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors, the chief executive officer or the stockholders.

5.16 **Representation of Shares of Other Corporations.** The chairman of the board, the chief executive officer, the president, any vice president, the treasurer, the secretary or assistant secretary of this

corporation, or any other person authorized by the board of directors, the chief executive officer or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

**ARTICLE VI**  
**INDEMNITY**

6.1 ***Indemnification of Directors and Officers.*** The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and executive officers against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a "director" or "executive officer" of the corporation includes any person (i) who is or was a director or executive officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or executive officer of another corporation partnership, joint venture, trust or other enterprise, or (iii) who was a director or executive officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 ***Indemnification of Others.*** The corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and executive officers) against expenses (including attorney's fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or executive officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who

is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 **Insurance.** The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

## ARTICLE VII RECORDS AND REPORTS

7.1 **Maintenance and Inspection of Records.** The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

7.2 **Inspection by Directors.** Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

**ARTICLE VIII**  
**MANNER OF GIVING NOTICE AND WAIVER**

8.1 **Notices.** Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder shall be in writing and may in every instance be effectively given by (i) hand delivery, (ii) mail, postage paid, or (iii) a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such notice given by hand delivery or mail shall be addressed to such stockholder at his or her last known address as it appears on the books of the corporation. The time of the giving of the notice shall be the time when such notice shall be deemed received if hand delivered, or dispatched if sent by mail. Any such notice given by electronic transmission shall be deemed given:

(i) if by facsimile transmission, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Any such consent sent to a stockholder shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

(i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the General Corporation Law of Delaware.

**8.2 Notice to Stockholders Sharing an Address.** Except as otherwise prohibited under the General Corporation Law of Delaware, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under the provisions of the General Corporation Law of Delaware, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any stockholder who fails to object in writing to the corporation, within 60 days of having been given written notice by the corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

**8.3 Notice to Person with whom Communicating is Unlawful.** Whenever notice is required to be given, under the General Corporation Law of Delaware, the certificate of incorporation or these

bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under the General Corporation Law of Delaware, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

8.4 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

## ARTICLE IX GENERAL MATTERS

9.1 **Checks.** From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.



9.2 **Execution of Corporate Contracts and Instruments.** The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

9.3 **Stock Certificates; Partly Paid.** The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by any two authorized officers of the corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

9.4 ***Special Designation on Certificates.*** If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section 9.4 or Sections 156, 202(a) or 218(a) of the General Corporation Law of Delaware or with respect to this section 9.4 a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

9.5 ***Lost Certificates.*** Except as provided in this Section 9.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his or her legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

9.6 **Construction; Definitions.** Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

9.7 **Dividends.** The directors of the corporation, subject to any restrictions contained in (i) the General Corporation Law of Delaware or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

9.8 **Fiscal Year.** The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

9.9 **Seal.** The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

9.10 **Transfer of Stock.** Stock of the corporation shall be transferable in the manner prescribed by law and in these bylaws. Transfers of stock shall be made on the books of the corporation only by the record holder of such stock or by his or her attorney lawfully constituted in writing and, if such stock is certificated, upon the surrender of the certificate therefore to the corporation or the transfer agent of the corporation, which shall be canceled before a new certificate shall be issued. Any transfer shall be accompanied by proper evidence of succession, assignment or authority and upon receipt of such evidence and compliance with the other applicable provisions of these bylaws and applicable law, it shall be the duty of the corporation to record the transaction in its books.

9.11 **Stock Transfer Agreements.** The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

9.12 **Registered Stockholders.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

**ARTICLE X**  
**AMENDMENTS**

Any of these bylaws may be altered, amended or repealed by the affirmative vote of a majority of the board of directors or, with respect to bylaw amendments placed before the stockholders for approval and except as otherwise provided herein or required by law, by the affirmative vote of the holders of a majority of the shares of the corporation's stock entitled to vote in the election of directors, voting as one class.

\* \* \* \* \*

**EXHIBIT 21.1**  
**MICROCHIP TECHNOLOGY INCORPORATED**  
**LIST OF SIGNIFICANT SUBSIDIARIES**

Microsemi Corp. - Holding 2  
Office 28, Verdala Business Centre, Level 2  
LM Complex, Brewery Street  
Central Business District  
Birkirkara, CBDE, 3040, Malta

MBarb Malta Limited  
Office 28, Verdala Business Centre, Level 2  
LM Complex, Brewery Street  
Central Business District  
Birkirkara, CBDE 3040, Malta

Microchip Malta BMD Limited  
Office 28, Verdala Business Centre, Level 2  
LM Complex, Brewery Street  
Central Business District  
Birkirkara, CBDE 3040, Malta

Microchip Technology (Thailand) Co., Ltd.  
14 Moo 1, Tambol Wangtakien  
Amphur Muang Chacherngsao  
Chacherngsao - 24000 Thailand

Silicon Storage Technology Inc.  
2355 W. Chandler Boulevard  
Chandler, AZ 85224

MCHP Technology Malta Limited  
Office 28, Verdala Business Centre, Level 2  
LM Complex, Brewery Street  
Central Business District  
Birkirkara, CBDE 3040, Malta

Microsemi SoC Corp.  
2355 W. Chandler Boulevard  
Chandler, AZ 85224

Microchip Technology LLC  
2355 W. Chandler Boulevard  
Chandler, AZ 85224

Microchip Communications, LLC  
2355 W. Chandler Blvd.  
Chandler, Arizona - 85224 USA

Microsemi Solutions UK Limited  
Castlegate Business Park,  
Unit 4  
Caldicot, Monmouthshire, UK NP26 5AD

Microsemi - IOM Limited  
2nd Floor, St. Mary's Court  
20 Hill Street  
Douglas, Isle of Man, IM1 1EU

Microsemi Corp. – Holding  
Office 28, Verdala Business Centre, Level 2  
LM Complex, Brewery Street  
Central Business District  
Birkirkara, CBDE 3040, Malta

Microsemi Corporation  
2355 W. Chandler Boulevard  
Chandler, AZ 85224

Microchip Technology Ireland Limited  
Ground Floor, Block W  
East Point Business Park  
Dublin 3, Ireland

Microsemi Solutions SDN BHD.  
Level 1, Building 3  
Plot 10 Bayan Lepas Technoplex  
Bayan Lepas Industrial Zone, Phase 4  
Penang, Malaysia 11900

Microsemi Storage Solutions, Inc.  
2355 W. Chandler Boulevard  
Chandler, AZ 85224

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Form S-8 No. 33-59686,
  - (2) Form S-8 No. 33-80072,
  - (3) Form S-8 No. 33-81690,
  - (4) Form S-8 No. 33-83196,
  - (5) Form S-8 No. 333-00872,
  - (6) Form S-8 No. 333-40791,
  - (7) Form S-8 No. 333-93571,
  - (8) Form S-8 No. 333-51322,
  - (9) Form S-8 No. 333-73506,
  - (10) Form S-8 No. 333-99655,
  - (11) Form S-8 No. 333-103764,
  - (12) Form S-8 No. 333-109486,
  - (13) Form S-8 No. 333-119939,
  - (14) Form S-8 No. 333-140773,
  - (15) Form S-8 No. 333-149460,
  - (16) Form S-8 No. 333-177889,
  - (17) Form S-8 No. 333-183074,
  - (18) Form S-8 No. 333-192273,
  - (19) Form S-8 No. 333-197233,
  - (20) Form S-8 No. 333-206210,
  - (21) Form S-8 No. 333-213062,
  - (22) Form S-8 No. 333-221420,
  - (23) Form S-8 No. 333-225257, and
  - (24) Form S-8 No. 333-236250
-

of our reports dated May 17, 2021 with respect to the consolidated financial statements of Microchip Technology Incorporated, and the effectiveness of internal control over financial reporting of Microchip Technology Incorporated, included in this Annual Report (Form 10-K) of Microchip Technology Incorporated for the year ended March 31, 2021.

/s/ Ernst & Young LLP

Phoenix, Arizona

May 17, 2021

## CERTIFICATION

I, Ganesh Moorthy, certify that:

1. I have reviewed this Form 10-K 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: May 17, 2021

/s/ Ganesh Moorthy  
Ganesh Moorthy  
President, Chief Executive Officer, and Director



## CERTIFICATION

I, J. Eric Bjornholt, certify that:

1. I have reviewed this Form 10-K 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: May 17, 2021

/s/ J. Eric Bjornholt

J. Eric Bjornholt

Senior Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ganesh Moorthy, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Microchip Technology Incorporated on Form 10-K for the period ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ Ganesh Moorthy  
Name: Ganesh Moorthy  
Title: President, Chief Executive Officer, and Director  
Date: May 17, 2021

I, J. Eric Bjornholt, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Microchip Technology Incorporated on Form 10-K for the period ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ J. Eric Bjornholt  
Name: J. Eric Bjornholt  
Title: Senior Vice President and Chief Financial Officer  
Date: May 17, 2021