

MICROCHIP TECHNOLOGY INC

Form 10-Q

November 07, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018.

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 86-0629024
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

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

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

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

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

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

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

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

Shares Outstanding of Registrant's Common Stock
Class Outstanding at November 5, 2018
Common Stock, \$0.001 par value 236,509,664 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

(unaudited)

Item 1. Financial Statements

	September 30, 2018	March 31, 2018
ASSETS		
Cash and cash equivalents	\$ 459.7	\$901.3
Short-term investments	4.5	1,295.3
Accounts receivable, net	668.8	563.7
Inventories	836.7	476.2
Other current assets	206.5	119.8
Total current assets	2,176.2	3,356.3
Property, plant and equipment, net	1,051.9	767.9
Goodwill	6,787.5	2,299.0
Intangible assets, net	6,825.9	1,662.0
Long-term deferred tax assets	1,715.5	100.2
Other assets	110.1	71.8
Total assets	\$ 18,667.1	\$8,257.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 271.2	\$144.1
Accrued liabilities	481.9	229.6
Deferred income on shipments to distributors	—	333.8
Current portion of long-term debt	1,335.0	1,309.9
Total current liabilities	2,088.1	2,017.4
Long-term debt	9,551.1	1,758.4
Long-term income tax payable	777.1	754.9
Long-term deferred tax liability	815.4	205.8
Other long-term liabilities	265.2	240.9
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; 253,232,909 shares issued and 236,208,392 shares outstanding at September 30, 2018; 253,232,909 shares issued and 235,027,767 shares outstanding at March 31, 2018	0.2	0.2
Additional paid-in capital	2,652.5	2,562.5
Common stock held in treasury: 17,024,517 shares at September 30, 2018; 18,205,142 shares at March 31, 2018	(625.4	) (662.6)
Accumulated other comprehensive loss	(16.7	) (17.6)
Retained earnings	3,159.6	1,397.3
Total stockholders' equity	5,170.2	3,279.8
Total liabilities and stockholders' equity	\$ 18,667.1	\$8,257.2
See accompanying notes to condensed consolidated financial statements		

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net sales	\$1,432.5	\$1,012.1	\$2,644.9	\$1,984.3
Cost of sales (1)	743.2	398.0	1,313.6	785.8
Gross profit	689.3	614.1	1,331.3	1,198.5
Research and development (1)	221.9	133.6	393.8	264.0
Selling, general and administrative (1)	176.6	114.3	340.7	228.6
Amortization of acquired intangible assets	169.9	120.9	303.6	241.8
Special charges and other, net (1)	18.2	19.9	58.3	17.1
Operating expenses	586.6	388.7	1,096.4	751.5
Operating income	102.7	225.4	234.9	447.0
Losses on equity method investment	(0.1)	) (0.1)	) (0.1)	) (0.1)
Other income (expense):				
Interest income	0.9	4.6	6.6	8.1
Interest expense	(138.6)	) (49.5)	) (229.0)	) (98.9)
Loss on settlement of debt	(4.1)	) —	(4.1)	) (13.8)
Other (loss) income, net	(0.2)	) 5.8	(10.0)	) 10.1
(Loss) income before income taxes	(39.4)	) 186.2	(1.7)	) 352.4
Income tax benefit	(135.7)	) (3.0)	) (133.7)	) (7.3)
Net income	\$96.3	\$189.2	\$132.0	\$359.7
Basic net income per common share	\$0.41	\$0.81	\$0.56	\$1.55
Diluted net income per common share	\$0.38	\$0.77	\$0.52	\$1.48
Dividends declared per common share	\$0.3640	\$0.3620	\$0.7275	\$0.7235
Basic common shares outstanding	235.8	233.3	235.5	231.4
Diluted common shares outstanding	251.8	244.8	252.0	243.8
(1) Includes share-based compensation expense as follows:				
Cost of sales	\$3.9	\$3.7	\$7.5	\$7.1
Research and development	\$19.7	\$10.6	\$33.8	\$20.9
Selling, general and administrative	\$17.8	\$9.3	\$29.5	\$18.0
Special charges and other, net	\$1.2	\$—	\$17.1	\$—

See accompanying notes to condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

	Three Months Ended September 30, 2018		Six Months Ended September 30, 2017	
Net income	\$96.3	\$189.2	\$132.0	\$359.7
Components of other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding losses, net of tax effect	—	0.5	(5.6)	(0.4)
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 benefit (provision)	(0.9)	0.6	3.5	(3.5)
Reclassification of realized transactions, net of tax effect	0.2	0.2	0.5	0.4
Change in net foreign currency translation adjustment	(1.1)	—	(1.4)	—
Other comprehensive (loss) income, net of tax effect	(1.8)	1.3	2.6	(3.5)
Comprehensive income	\$94.5	\$190.5	\$134.6	\$356.2

See accompanying notes to condensed consolidated financial statements

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Six Months Ended September 30, 2018 2017	
Cash flows from operating activities:		
Net income	\$ 132.0	\$ 359.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	393.8	304.4
Deferred income taxes	(71.6)	(46.9)
Share-based compensation expense related to equity incentive plans	87.9	46.0
Loss on settlement of debt	4.1	13.8
Amortization of debt discount on convertible debt	55.4	52.3
Amortization of debt issuance costs	8.4	3.3
Losses on equity method investments	0.1	0.1
Gains on sale of assets	—	(5.4)
Impairment of intangible assets	3.1	0.2
Losses on available-for-sale investments, net	6.2	—
Amortization of premium on available-for-sale investments	(0.2)	0.6
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Decrease (increase) in accounts receivable	65.4	(67.0)
Decrease (increase) in inventories	261.5	(40.1)
Increase in deferred income on shipments to distributors	—	31.5
(Decrease) increase in accounts payable and accrued liabilities	(37.8)	25.9
Change in other assets and liabilities	(25.1)	(0.7)
Change in income tax payable	(93.3)	17.4
Net cash provided by operating activities	789.9	695.1
Cash flows from investing activities:		
Purchases of available-for-sale investments	(167.7)	(879.4)
Maturities of available-for-sale investments	75.9	363.0
Sales of available-for-sale investments	1,376.6	—
Acquisition of Microsemi, net of cash acquired	(7,850.6)	—
Investments in other assets	(8.9)	(3.8)
Proceeds from sale of assets	0.1	10.2
Capital expenditures	(161.4)	(82.0)
Net cash used in investing activities	(6,736.0)	(592.0)
Cash flows from financing activities: ⁽¹⁾		
Payments on settlement of convertible debt	—	(15.2)
Proceeds from Issuance of 2023 and 2021 Senior Notes	1,989.5	—
Proceeds from borrowings on Term Loan Facility	3,000.0	—
Repayments of term loan facility	(267.0)	—
Proceeds from borrowings on revolving loan under credit facility	3,632.5	113.0
Repayments of revolving loan under credit facility	(532.5)	(113.0)
Repayment of debt assumed in Microsemi acquisition	(2,056.9)	—
Deferred financing costs	(72.7)	(0.8)
Payment of cash dividends	(171.4)	(167.4)

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Proceeds from sale of common stock	20.3	19.6
Tax payments related to shares withheld for vested restricted stock units	(36.9)	(21.2)
Capital lease payments	(0.4)	(0.4)
Net cash provided by (used in) financing activities	5,504.5	(185.4)
Net decrease in cash, cash equivalents, and restricted cash	(441.6)	(82.3)
Cash and cash equivalents, and restricted cash at beginning of period ⁽²⁾	901.3	908.7
Cash and cash equivalents, and restricted cash at end of period ⁽²⁾	\$459.7	\$826.4

Schedule of significant non-cash financing activity:

⁽¹⁾During the six months ended September 30, 2017, the Company issued \$111.3 million principal amount of 2017 Junior Convertible Debt and 3.2 million shares of common stock in exchange for \$111.3 million principal amount of 2007 Junior Convertible Debt. Refer to Note 13 Debt and Credit Facility for further discussion.

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

Schedule of restricted cash:

⁽²⁾ In the three months ended June 30, 2018, the Company adopted ASU 2016-18 - Statement of Cash Flows:

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

	As of		
	March 31, 2017	March 31, 2018	September 30, 2018
Restricted cash	\$ 40.2	\$ 42.1	\$ 40.0

See accompanying notes to condensed consolidated financial statements

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Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its majority-owned and controlled subsidiaries (the Company). All intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in these notes, except per share amounts, are stated in millions of U.S. dollars unless otherwise noted.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018. As further discussed in Note 3, on May 29, 2018, the Company completed its acquisition of Microsemi Corporation (Microsemi) and the Company's results for the three and six months ended September 30, 2018 include Microsemi's results beginning as of such acquisition date. The results of operations for the six months ended September 30, 2018 are not indicative of the results that may be expected for the fiscal year ending March 31, 2019 or for any other period.

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On April 1, 2018, the Company adopted ASU 2014-09-Revenue from Contracts with Customers (Topic 606) and all related amendments ("New Revenue Standard") using the modified retrospective method. The Company has applied the new revenue standard to all contracts that were entered into after adoption and to all contracts that were open as of the initial date of adoption. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the adoption of the new standard to impact its net sales on an ongoing basis depending on the relative amount of revenue sold through its distributors, the change in inventory held by its distributors, and the changes in price concessions granted to its distributors. Previously, the Company deferred revenue and cost of sales on shipments to distributors until the distributor sold the product to their end customer. As required by the new revenue standard, the Company no longer defers revenue and cost of sales, but rather, estimates the effects of returns and allowances provided to distributors and records revenue at the time of sale to the distributor. Sales to non-distributor customers, under both the previous and new revenue standards, are generally recognized upon the Company's shipment of the product. The cumulative effect of the changes made to our condensed consolidated April 1, 2018 balance sheet for the adoption of the new revenue standard is summarized in the table of opening balance sheet adjustments below. In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our condensed consolidated income statement and balance sheet for the period ended September 30, 2018 was as follows (in millions):

Income Statement	For the three months ended		
	September 30, 2018		
	As reported	Balances without	Effect of Change

		adoption of New Revenue Standard	Higher / (Lower)
Net Sales	\$1,432.5	\$1,437.6	\$ (5.1)
Cost of Sales	\$743.2	\$747.6	\$ (4.4)
Gross Profit	\$689.3	\$690.0	\$ (0.7)
Income tax provision (benefit)	\$(135.7)	\$(133.0)	\$ (2.7)
Net Income	\$96.3	\$94.3	\$ 2.0

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Income Statement	For the six months ended September 30, 2018		
	As reported	Balances without adoption of New Revenue Standard	Effect of Change Higher / (Lower)
Net Sales	\$2,644.9	\$2,647.5	\$ (2.6)
Cost of Sales	\$1,313.6	\$1,319.2	\$ (5.6)
Gross Profit	\$1,331.3	\$1,328.3	\$ 3.0
Income tax provision (benefit)	\$(133.7)	\$(133.3)	\$(0.4)
Net Income	\$132.0	\$128.6	\$ 3.4

Balance Sheet	As of September 30, 2018		
	As reported	Balances without adoption of New Revenue Standard	Effect of Change Higher / (Lower)
ASSETS			
Accounts receivable, net	\$668.8	\$706.3	\$(37.5)
Inventories	\$836.7	\$841.8	\$(5.1)
Other current assets	\$206.5	\$188.1	\$18.4
Long-term deferred tax assets	\$1,715.5	\$1,739.3	\$(23.8)
LIABILITIES			
Accrued liabilities	\$481.9	\$458.6	\$23.3
Deferred income on shipments to distributors	\$—	\$332.4	\$(332.4)
Long-term deferred tax liability	\$815.4	\$798.6	\$16.8
STOCKHOLDERS' EQUITY			
Retained Earnings	\$3,159.6	\$2,915.3	\$244.3

The significant changes in our financial statements noted in the table above are primarily due to the transition from sell-through revenue recognition to sell-in revenue recognition as required by the New Revenue Standard, which eliminated the balance of deferred income on shipments to distributors, significantly reduced accounts receivable, and significantly increased retained earnings.

During the three months ended June 30, 2018, the Company adopted ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard requires available-for-sale equity investments to be measured at fair value with changes in fair value recognized in net income. The adoption of this standard did not have a material impact on the Company's financial statements.

During the three months ended June 30, 2018, the Company adopted ASU 2016-16-Intra-Entity Transfers of Assets Other Than Inventory. This standard addresses the recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset other than inventory. This standard has been applied on a modified retrospective basis

through a cumulative-effect adjustment directly to retained earnings. The adoption of this standard resulted in a cumulative-effect increase in the Company's deferred tax assets of approximately \$1.58 billion, a decrease to the Company's deferred tax liabilities of \$1.1 million, a decrease to other assets of \$24.1 million, and a decrease of \$1.7 million to other long-term liabilities.

During the three months ended June 30, 2018, the Company adopted ASU 2016-18-Statement of Cash Flows: Restricted Cash. This standard requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard has been applied using a retrospective transition method to each period presented. The adoption of this standard did not have a material impact on the Company's financial statements.

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The following table summarizes the opening balance sheet adjustments related to the adoption of the New Revenue Standard, ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-16-Intra-Entity Transfers of Assets Other Than Inventory (in millions):

	Balance as of	Adjustments from			Balance as of
	March 31, 2018	ASC Topic 606	ASU 2016-01	ASU 2016-16	April 1, 2018
ASSETS					
Accounts receivable, net	\$563.7	\$(45.6)	\$ —	\$ —	\$518.1
Inventories	\$476.2	\$(5.1)	\$ —	\$ —	\$471.1
Other current assets	\$119.8	\$17.2	\$ —	\$ —	\$137.0
Long-term deferred tax assets	\$100.2	\$(23.1)	\$ —	\$1,579.4	\$1,656.5
Other assets	\$71.8	\$ —	\$ —	\$(24.1)	\$47.7
LIABILITIES					
Accrued liabilities	\$229.6	\$18.5	\$ —	\$ —	\$248.1
Deferred income on shipments to distributors	\$333.8	\$(333.8)	\$ —	\$ —	\$ —
Long-term deferred tax liability	\$205.8	\$16.8	\$ —	\$(1.1)	\$221.5
Other long-term liabilities	\$240.9	\$ —	\$ —	\$(1.7)	\$239.2
STOCKHOLDERS' EQUITY					
Accumulated other comprehensive loss	\$(17.6)	\$ —	\$(1.7)	\$ —	\$(19.3)
Retained earnings	\$1,397.3	\$241.9	\$ 1.7	\$1,558.1	\$3,199.0

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12-Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update expands an entity's ability to apply hedge accounting for non-financial and financial risk components and allows for a simplified approach for fair value hedging of interest rate risk. The update eliminates the need to separately measure and report hedge ineffectiveness and generally requires the entire change in fair value of a hedging instrument to be presented in the same income statement line as the hedged item. Additionally, the update simplifies the hedge documentation and effectiveness assessment requirements under the previous guidance. The effective date of this standard is for fiscal years beginning after December 15, 2018 and early adoption is permitted. Adoption will be applied through a cumulative-effect adjustment for cash flow and net investment hedges existing at the date of adoption and prospectively for presentation and disclosure. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13-Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which requires waiting to recognize a loss until it is probable of having been incurred. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually and can include forecasted information. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, and

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permits early adoption, but not before December 15, 2018. The standard is to be applied using a modified retrospective approach. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

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

Note 3. Business Acquisitions

Acquisition of Microsemi

On May 29, 2018, the Company completed its acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. The Company paid an aggregate of approximately \$8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately \$53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards of the Company, was approximately \$8.24 billion. In addition to the consideration transferred, the Company recognized in its consolidated financial statements \$3.15 billion in liabilities of Microsemi consisting of debt, taxes payable and deferred, restructuring, and contingent and other liabilities of which \$2.06 billion of existing debt was paid off. The Company financed the purchase price using approximately \$8.10 billion of borrowings consisting of \$3.10 billion under its amended and restated revolving line of credit (the "Credit Facility"), \$3.0 billion under the term loan feature of the Credit Facility ("Term Loan Facility"), and \$2.0 billion in newly issued senior secured notes. The Company incurred \$22.0 million in acquisition costs related to the acquisition. As a result of the acquisition, Microsemi became a wholly owned subsidiary of the Company. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Microsemi have been included in the Company's consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Microsemi's net tangible assets and intangible assets based on their estimated fair values as of May 29, 2018. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Microsemi acquisition is deductible for tax purposes. The Company has retained independent third-party appraisers to assist management in its ongoing valuation of the acquired assets and liabilities. The purchase price allocation has not been finalized and is based on estimates and assumptions that are subject to change related to the valuation of inventory, intangible assets, taxes and other assets and liabilities. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuation and estimates of useful lives. The purchase price allocation is preliminary and could change materially during the measurement period.

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

	Previously reported June 30, 2018	Adjustments	September 30, 2018
Assets acquired			
Cash and cash equivalents	\$ 340.0	\$ —	\$ 340.0
Accounts receivable	216.1	—	216.1
Inventories	716.8	(91.8)	625.0
Prepaid expenses and other current assets	66.6	—	66.6
Property, plant and equipment	241.2	(39.3)	201.9
Goodwill	4,974.2	(485.7)	4,488.5
Purchased intangible assets	4,722.0	744.9	5,466.9
Long-term deferred tax assets	19.2	(13.2)	6.0
Other assets	101.2	(44.0)	57.2
Total assets acquired	11,397.3	70.9	11,468.2
Liabilities assumed			
Accounts payable	(226.9)	—	(226.9)
Other current liabilities	(174.8)	—	(174.8)
Long-term debt	(2,056.9)	—	(2,056.9)
Deferred tax liabilities	(545.7)	(71.5)	(617.2)
Long-term income tax payable	(101.6)	—	(101.6)
Other long-term liabilities	(46.3)	—	(46.3)
Total liabilities assumed	(3,152.2)	(71.5)	(3,223.7)
Purchase price allocated	\$ 8,245.1	\$ (0.6)	\$ 8,244.5

Purchased Intangible Assets	Weighted Average	
	Useful Life (in years)	May 29, 2018 (in millions)
Core and developed technology	15	\$ 4,312.1
In-process research and development	—	794.2
Customer-related	12	326.9
Backlog	1	27.9
Other	4	5.8
Total purchased intangible assets		\$ 5,466.9

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles and acquisition-date backlog.

The estimated fair values of the core and developed technology and in-process research and development are being determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized in a manner based on the expected cash flows used in the initial determination of fair value.

In-process research and development is capitalized until such time as the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

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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 are being determined based on 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 are being determined based on the estimated profit associated with those orders. Backlog related assets had 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 9 years. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately \$851.4 million was established as a net deferred tax liability for the future amortization of the intangible assets.

The amount of Microsemi net sales included in the Company's condensed consolidated statements of income for the three and six months ended September 30, 2018 was approximately \$431.7 million and \$620.2 million, respectively. The amount of Microsemi net loss included in the Company's condensed consolidated statements of income for the three and six months ended September 30, 2018, was approximately \$216.4 million and \$250.4 million, respectively.

The following unaudited pro-forma consolidated results of operations for the three and six months ended September 30, 2018 and 2017 assume the closing of the Microsemi acquisition occurred as of April 1, 2017. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. The pro-forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2017 or of results that may occur in the future (in millions except per share data):

	Three Months		Six Months Ended	
	Ended September 30,		September 30,	
	2018	2017	2018	2017
Net sales	\$1,432.5	\$1,487.4	\$2,859.3	\$2,917.6
Net income (loss)	\$210.0	\$(30.1)	\$318.1	\$(303.7)
Basic net income (loss) per common share	\$0.89	\$(0.13)	\$1.35	\$(1.31)
Diluted net income (loss) per common share	\$0.83	\$(0.13)	\$1.26	\$(1.31)

Note 4. Segment Information

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

The following table represents net sales and gross profit for each segment for the three and six months ended September 30, 2018 (in millions):

	Three Months	Six Months Ended
	Ended	September 30,
	September 30,	September 30,
	2018	2018

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	Net	Gross	Net	Gross
	Sales	Profit	Sales	Profit
Semiconductor products	\$1,394.3	\$651.1	\$2,580.0	\$1,266.4
Technology licensing	38.2	38.2	64.9	64.9
Total	\$1,432.5	\$689.3	\$2,644.9	\$1,331.3

The following table represents net sales and gross profit for each segment for the three and six months ended September 30, 2017 (in millions):

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	Three Months Ended		Six Months Ended	
	September 30, 2017		September 30, 2017	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$986.3	\$588.3	\$1,933.5	\$1,147.7
Technology licensing	25.8	25.8	50.8	50.8
Total	\$1,012.1	\$614.1	\$1,984.3	\$1,198.5

Note 5. Net Sales

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

	Three Months Ended	Six Months Ended
	September 30, 2018	
Microcontrollers	\$778.6	\$1,500.9
Analog, interface, mixed signal and timing products	419.2	751.1
Memory products	48.1	98.1
Field-programmable gate array products	70.8	108.7
Technology licensing	38.2	64.9
Multi-market and other	77.6	121.2
Total net sales	\$1,432.5	\$2,644.9

All of the product lines listed above are included in the Company's Semiconductor Product segment with the exception of Technology Licensing, which belongs to the Technology Licensing segment.

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

	Three Months Ended	Six Months Ended
	September 30, 2018	
Distributors	\$712.4	\$1,358.0
Direct customers	681.9	1,222.0
Licensees	38.2	64.9
Total net sales	\$1,432.5	\$2,644.9

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

Company's Semiconductor Product segment with the exception of Licensees, which belong to the Technology Licensing segment.

Substantially all of the Company's net sales is recognized from contracts with customers, and therefore, subject to the new revenue recognition standard.

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

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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. As contracts with customers generally have an expected duration of one year or less, the balance of open performance obligations as of period end that will be recognized as revenue subsequent to September 30, 2019 is immaterial.

Generally, there is only a single performance obligation in the Company's contracts with customers for semiconductor products; as such, the entire transaction price is allocated to the single performance obligation and allocation of the transaction price to individual performance obligations is not necessary. The consideration received from customers is fixed, with the exception of consideration from certain distributors. Certain of the Company's distributors are granted price concessions and 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 6. Special Charges and Other, Net

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

	Three Months Ended September 30, 2018		Six Months Ended September 30, 2018	
	2017	2018	2017	2018
Restructuring				
Employee separation costs	\$12.1	\$0.3	\$57.2	\$1.4
Gain on sale of assets	—	—	—	(4.4)
Impairment charges	1.5	—	3.5	0.1
Contract exit costs	4.0	19.6	(3.0)	20.2
Other	0.6	—	0.6	(0.2)
Total	\$18.2	\$19.9	\$58.3	\$17.1

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 total amount of expected employee separation or exit costs that it will incur in connection with its restructuring activities.

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The Company's restructuring expenses during the three and six months ended September 30, 2018 were related to the Company's most recent business acquisitions, and resulted from workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations. These expenses were for employee separation costs and intangible asset impairment charges. The impairment charges in the three and six months ended September 30, 2018 were 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 and other previous acquisitions.

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company has incurred \$107.1 million in costs since the start of fiscal 2016 in connection with employee separation activities, of which \$12.1 million and \$57.2 million was incurred during the three and six months ended September 30, 2018, respectively, and \$0.3 million and 1.4 million was incurred during the three and six months ended September 30, 2017, respectively. The Company could incur future expenses as additional synergies or operational efficiencies are identified. The Company is not able to estimate future expenses, if any, to be incurred in employee separation costs. The Company has incurred \$42.5 million in costs in connection with contract exit activities since the start of fiscal 2016 which includes expense of \$4.0 million and income of \$3.0 million for the three and six months ended September 30, 2018, respectively, and costs of \$19.6 million and \$20.2 million for the three and six months ended September 30, 2017, respectively. The amounts recognized during the six months ended September 30, 2018 were related to vacated lease liabilities. While the Company expects to incur further acquisition-related contract exit expenses, it is not able to estimate the amount at this time.

In the three months ended September 30, 2017, the Company recognized a \$19.5 million charge for fees associated with transitioning from the public utility provider in Oregon to a lower cost direct access provider. The fee is being paid monthly starting in calendar year 2018 and depends on the amount of actual energy consumed by the Company's wafer fabrication facility in Oregon over the next five years. In connection with the transition to a direct access provider, the Company signed a ten-year supply agreement to purchase monthly amounts of energy that are less than the current average usage and priced on a per mega watt hour published index rate in effect at those future dates.

In the three months ended June 30, 2017, the Company completed the sale of an asset it acquired as part of its acquisition of Micrel for proceeds of \$10.0 million and the gain of \$4.4 million is included in the gain on sale of assets in the above table.

The following is a roll forward of accrued restructuring and other exit charges from April 1, 2018 to September 30, 2018 (in millions):

	Restructuring Employee Separation Costs	Exit Costs	Non-Restructuring Exit Costs	Total
Balance at April 1, 2018	\$0.8	\$27.3	\$ 19.1	\$47.2
Additions due to Microsemi acquisition	11.4	6.6	—	18.0
Charges/income	40.1	(3.0)	—	37.1
Payments	(15.5)	(6.5)	(1.9)	(23.9)
Non-cash - Other	—	0.6	0.4	1.0
Balance at September 30, 2018	\$36.8	\$25.0	\$ 17.6	\$79.4
Current				\$49.2
Non-current				30.2

Total

\$79.4

The liability for restructuring and other exit costs of \$79.4 million is included in accrued liabilities and other long-term liabilities on the Company's condensed consolidated balance sheet as of September 30, 2018.

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Note 7. Investments

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale debt securities at September 30, 2018 (in millions):

Available-for-sale Debt Securities			
Adjusted	Gross	Gross	Estimated
Cost	Unrealized	Unrealized	Fair
	Gains	Losses	Value
Time deposits	\$ 2.2	—	\$ 2.2

At September 30, 2018, short-term investments of \$4.5 million included available-for-sale debt securities of \$2.2 million and marketable equity securities of \$2.3 million.

The following is a summary of available-for-sale debt securities at March 31, 2018 (in millions):

Available-for-sale Debt Securities			
Adjusted	Gross	Gross	Estimated
Cost	Unrealized	Unrealized	Fair
	Gains	Losses	Value
Available-for-sale debt securities:			
Government agency bonds	\$ 723.2	\$ —	\$ 723.2
Municipal bonds - taxable	14.9	—	14.9
Time deposits	11.5	—	11.5
Corporate bonds and debt	542.9	—	542.9
Total	\$ 1,292.5	\$ —	\$ 1,292.5

At March 31, 2018, short-term investments of \$1.30 billion included available-for-sale debt securities of \$1.29 billion and marketable equity securities of \$2.8 million.

The Company sold available-for-sale debt securities for proceeds of \$1.38 billion during the six months ended September 30, 2018 to help finance the acquisition of Microsemi. The Company had no sales of available-for-sale debt securities during the six months ended September 30, 2017. During the six months ended September 30, 2018, the Company recognized a loss of \$5.6 million on available-for-sale debt securities. During fiscal 2018, the Company recognized an impairment of \$15.5 million on available-for-sale debt securities based on its evaluation of available evidence and the Company's intent to sell these investments which were subsequently sold in the first quarter of fiscal 2019. The Company determines the cost of available-for-sale debt securities sold on a first-in first-out (FIFO) basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level. Gains and losses recognized in earnings are credited or charged to other income (expense) on the consolidated statements of income.

As of September 30, 2018 and March 31, 2018, the Company had no available-for-sale debt securities in an unrealized loss position.

The amortized cost and estimated fair value of the available-for-sale debt securities at September 30, 2018, by contractual maturity are shown below (in millions). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale debt securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 2.2	\$	—\$	—\$ 2.2

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Note 8. Fair Value Measurements

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

Level 1- Observable inputs such as quoted prices in active markets;

Level 2- Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3- Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Marketable Debt Instruments

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

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at September 30, 2018 are as follows (in millions):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Balance
Assets			
Cash and cash equivalents:			
Money market mutual funds	\$ 12.8	\$ —	\$ 12.8
Deposit accounts	—	446.9	446.9
Short-term investments:			
Marketable equity securities	2.3	—	2.3
Time deposits	—	2.2	2.2
Total assets measured at fair value	\$ 15.1	\$ 449.1	\$ 464.2

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Assets measured at fair value on a recurring basis at March 31, 2018 are as follows (in millions):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Balance
Assets			
Cash and cash equivalents:			
Money market mutual funds	\$ 121.0	\$ —	\$ 121.0
Deposit accounts	—	641.6	641.6
Commercial Paper	—	118.7	118.7
Government agency bonds	—	20.0	20.0
Short-term investments:			
Marketable equity securities	2.8	—	2.8
Corporate bonds and debt	—	542.9	542.9
Time deposits	—	11.5	11.5
Government agency bonds	—	723.2	723.2
Municipal bonds - taxable	—	14.9	14.9
Total assets measured at fair value	\$ 123.8	\$ 2,072.8	\$ 2,196.6

There were no transfers between Level 1 and Level 2 during the three and six months ended September 30, 2018 or the fiscal year ended March 31, 2018. There were no assets measured on a recurring basis using significant unobservable inputs (Level 3).

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

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

The Company's non-marketable and cost method investments are monitored on a quarterly basis for impairment charges. The fair values of these investments have been determined as Level 3 fair value measurements because the valuations use unobservable inputs that require management's judgment due to the absence of quoted market prices. There were no impairment charges recognized on these investments during each of the three and six-month periods ended September 30, 2018 and September 30, 2017. These investments are included in other assets on the condensed consolidated balance sheets.

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

Note 9. Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at September 30, 2018 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value excluding debt issuance costs. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit borrowings at September 30, 2018 approximated the carrying value and are considered Level 2 in the fair value hierarchy described in Note

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8. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

Fair Value of Subordinated Convertible Debt, Senior Secured Notes, and Term Loan Facility

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

The following table shows the carrying amounts and fair values of the Company's senior and junior subordinated convertible debt, senior secured notes, and term loan facility as of September 30, 2018 and March 31, 2018 (in millions).

	September 30, 2018		March 31, 2018	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
2023 Senior Secured Notes	\$983.7	\$987.5	\$—	\$—
2021 Senior Secured Notes	\$984.5	\$994.0	\$—	\$—
Term Loan Facility	\$2,703.0	\$2,733.0	\$—	\$—
2017 Senior Convertible Debt	\$1,465.2	\$2,201.3	\$1,437.6	\$2,459.2
2015 Senior Convertible Debt	\$1,335.0	\$2,615.5	\$1,309.9	\$3,079.1
2017 Junior Convertible Debt	\$331.2	\$724.8	\$326.7	\$876.9

(1) The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 13. Debt and Credit Facility for further information).

Note 10. Other Financial Statement Details

Accounts Receivable

Accounts receivable consists of the following (in millions):

	September 30, 2018	March 31, 2018
Trade accounts receivable	\$ 664.6	\$ 557.8
Other	6.3	8.1
Total accounts receivable, gross	670.9	565.9
Less allowance for doubtful accounts	2.1	2.2
Total accounts receivable, net	\$ 668.8	\$ 563.7

Inventories

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

	September 30, 2018	March 31, 2018
Raw materials	\$ 80.6	\$ 26.0

Work in process	455.6	311.8
Finished goods	300.5	138.4
Total inventories \$	836.7	\$ 476.2

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. The inventory balance at September 30, 2018 includes \$120.1 million acquired inventory fair value mark-up resulting from the acquisition of Microsemi.

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Property, Plant and Equipment

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

	September 30, March 31,	
	2018	2018
Land	\$ 82.3	\$ 73.4
Building and building improvements	623.1	508.5
Machinery and equipment	2,176.9	1,943.9
Projects in process	127.6	118.3
Total property, plant and equipment, gross	3,009.9	2,644.1
Less accumulated depreciation and amortization	1,958.0	1,876.2
Total property, plant and equipment, net	\$ 1,051.9	\$ 767.9

Depreciation expense attributed to property, plant and equipment was \$47.2 million and \$85.2 million for the three and six months ended September 30, 2018, respectively, compared to \$29.9 million and \$58.9 million for the three and six months ended September 30, 2017, respectively.

Note 11. Intangible Assets and Goodwill

Intangible assets consist of the following (in millions):

	September 30, 2018		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$6,266.4	\$ (844.9)	\$5,421.5
Customer-related	1,043.9	(464.0)	579.9
Backlog	27.9	(11.2)	16.7
In-process research and development	801.9	—	801.9
Distribution rights	0.4	(0.2)	0.2
Other	7.2	(1.5)	5.7
Total	\$8,147.7	\$ (1,321.8)	\$6,825.9

	March 31, 2018		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$1,952.3	\$ (644.4)	\$1,307.9
Customer-related	716.9	(375.9)	341.0
In-process research and development	12.1	—	12.1
Distribution rights	0.3	(0.1)	0.2
Other	1.5	(0.7)	0.8
Total	\$2,683.1	\$ (1,021.1)	\$1,662.0

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the six months ended September 30, 2018, due to the acquisition of Microsemi, the Company acquired \$4.31 billion of core and developed technology which has a weighted average amortization period of 15 years, \$326.9 million of customer-related intangible assets which have a weighted average amortization period of 12 years, \$27.9 million of intangible assets related to backlog with an amortization period of 1 year, and \$794.2 million of in-process

technology which will begin amortization once the technology reaches technological feasibility. In the six months ended September 30, 2018, \$4.4 million of in-process research and development intangible assets reached technological feasibility and was reclassified as core and developed technology and began being amortized over the respective estimated useful lives. The following is an expected amortizati

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on schedule for the intangible assets for the remainder of fiscal 2019 through fiscal 2023, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending	Projected Amortization Expense
March 31, 2019	\$393.9
2020	\$991.9
2021	\$926.6
2022	\$852.0
2023	\$660.4

Amortization expense attributed to intangible assets was \$173.8 million and \$308.6 million for the three and six months ended September 30, 2018, respectively. Amortization expense attributed to intangible assets was \$122.7 million and \$245.5 million for the three and six months ended September 30, 2017, respectively. In the three and six months ended September 30, 2018, approximately \$2.1 million and \$3.1 million of amortization expense, respectively, was charged to cost of sales, and approximately \$171.7 million and \$305.5 million, respectively, was charged to operating expenses. In the three and six months ended September 30, 2017, approximately \$1.9 million and \$3.9 million of amortization expense, respectively, was charged to cost of sales, and approximately \$120.8 million and \$241.6 million, respectively, was charged to operating expenses. The Company recognized \$1.2 million and \$3.1 million of intangible asset impairment charges in the three and six months ended September 30, 2018, respectively. The impairment charges in the three and six months ended September 30, 2018 were recognized as a result of writing off intangible assets purchased from Microsemi prior to the close of the acquisition and as a result of changes in the combined product roadmaps after the acquisition that affected the use and life of these assets. The Company recognized an immaterial amount of intangible asset impairment charges in the three and six months ended September 30, 2017.

Goodwill activity for the three and six months ended September 30, 2018 was as follows (in millions):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2018	\$ 2,279.8	\$ 19.2
Additions due to the acquisition of Microsemi	4,488.5	—
Balance at September 30, 2018	\$ 6,768.3	\$ 19.2

At March 31, 2018, 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 September 30, 2018, the Company has never recorded an impairment charge against its goodwill balance.

Note 12. Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. The Company's effective tax rate for the six months ended September 30, 2018 was not meaningful due to the amount of pre-tax income and the tax benefits recorded during the period. The Company had a negative effective tax rate of 2.1% for the six months ended September 30, 2017.

The Company's effective tax rate for the six months ended September 30, 2018 is higher compared to the prior year primarily due to a worldwide pre-tax loss combined with discrete benefits related to releases of uncertain tax positions

due to lapses of statutes of limitations, successful closure of tax examinations, discrete adjustments to deferred tax assets related to intellectual property, offset by the impact of the new Global Intangible Low-Taxed Income (“GILTI”) tax in the United States. The Company's effective tax rate is different than statutory rates in the U.S. due to one-time discrete tax benefits related to changes in U.S. and foreign tax laws, changes in uncertain tax benefit positions, and favorable adjustments from revaluing deferred tax assets related to intellectual property. In addition, the Company has numerous tax holidays it receives related to its Thailand manufacturing operations based on its investment in property, plant and equipment in Thailand, as well as Microsemi's tax holiday in Malaysia that effectively reduces its Malaysia net income tax rate to zero in that jurisdiction. The Company's tax holiday periods in Thailand expire at various times in the future, 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. Microsemi's tax holiday in Malaysia was granted in 2009 and is effective through

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December 2019, subject to continued compliance with the tax holiday's requirements. The material components of foreign income taxed at a rate lower than the U.S. are earnings accrued in Thailand, Malta and Ireland.

The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2005 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.

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, additional tax payments are more likely than not. 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 tables summarize the activity related to the Company's gross unrecognized tax benefits for the six months ended September 30, 2018 and the year ended March 31, 2018 (in millions):

	Six Months Ended September 30, 2018
Balance at March 31, 2018	\$ 436.0
Increases related to acquisitions	284.0
Decreases related to settlements with tax authorities	—
Decreases related to statute of limitation expirations	(11.3)
Increases related to current year tax positions	23.2
Decreases related to prior year tax positions	(50.1)
Balance at September 30, 2018	\$ 681.8
	Year Ended March 31, 2018
Balance at March 31, 2017	\$398.5
Increases related to acquisitions	—
Decreases related to settlements with tax authorities	(0.1)
Decreases related to statute of limitation expirations	(10.9)
Increases related to current year tax positions	30.3
Increases related to prior year tax positions	18.2
Balance at March 31, 2018	\$436.0

As of September 30, 2018, the Company had accrued approximately \$38.9 million related to the potential payment of interest on the Company's uncertain tax positions. The current year increase to the potential payment of interest is primarily composed of a \$23.2 million increase related to acquisitions. As of March 31, 2018, the Company had accrued approximately \$12.9 million related to the potential payment of interest on the Company's uncertain tax positions. As of September 30, 2018, the Company had accrued for \$56.5 million of penalties related to its uncertain tax positions. The current year increase to the potential payment of penalties is primarily composed of a \$15.8 million increase related to acquisitions. As of March 31, 2018, the Company had accrued for approximately \$67.9 million of penalties related to its uncertain tax positions.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted into law. The Act provides for numerous significant tax law changes and modifications including the reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and the creation of new taxes on certain foreign-sourced earnings.

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Accounting Standards Codification ("ASC") 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin ("SAB") 118 which allows companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations. The Company recorded a reasonable estimate when measurable and with the understanding that the provisional amount is subject to further adjustments under SAB 118. In addition, for significant items for which the Company could not make a reasonable estimate, no provisional amounts were recorded. Amounts will be recorded during the measurement period allowed under SAB 118 when a reasonable estimate can be made, or when the effect of the Act is known. As of March 31, 2018, the Company made a reasonable estimate of the effects on the one-time transition tax, its existing deferred tax balances and the release of its valuation allowances on foreign tax credits due to the Act, and the Company recognized a provisional amount of income tax expense of \$471.6 million, which decreased diluted net income per common share by \$1.89 for the fiscal year ended March 31, 2018 and which was included as a component of income tax provision from continuing operations. As of September 30, 2018, the Company made adjustments to the provisional estimates of its uncertain tax positions recorded on the financial statements for the fiscal year ended March 31, 2018. The Company will continue to refine the provisional balances and adjustments that may be made under SAB 118 during the measurement period as a result of future changes in interpretation, information available, assumptions made by the Company and/or issuance of additional guidance and these adjustments could be material.

The Company has not yet completed its calculation of the total post-1986 E&P for its foreign subsidiaries. The one-time transition tax is based in part on the amount of those earnings held in cash and other specified assets either as of the end of fiscal 2018 or the average of the year-end balances for fiscal 2016 and fiscal 2017. The Company's calculation of this amount will change with further analysis and guidance from the U.S. federal and state tax authorities about the application of these new rules. The Company will continue to evaluate the impact of the tax law change as it relates to the accounting for the outside basis difference of its foreign entities.

On July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to share-based compensation.

This opinion reversed the prior decision of the United States Tax Court. On August 7, 2018, the decision on July 24, 2018 was withdrawn. We will continue to monitor the case and will quantify the potential impact as more information is available.

Note 13. Debt and Credit Facility

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

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	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance ⁽¹⁾	September 30, 2018	March 31, 2018
Senior Secured Indebtedness					
Revolving Credit Facility				\$3,100.0	\$—
Term Loan Facility				2,733.0	—
2023 Notes, maturing June 1, 2023 ("2023 Notes")	4.333%			1,000.0	—
2021 Notes, maturing June 1, 2021 ("2021 Notes")	3.922%			1,000.0	—
Total Senior Secured Indebtedness				7,833.0	—
Senior Subordinated Convertible Debt - Principal Outstanding					
2017 Senior Debt, maturing February 15, 2027 (2017 Senior Convertible Debt)	1.625%	6.0%	\$1,396.3	\$2,070.0	\$2,070.0
2015 Senior Debt, maturing February 15, 2025 (2015 Senior Convertible Debt)	1.625%	5.9%	\$1,160.1	1,725.0	1,725.0
Junior Subordinated Convertible Debt - Principal Outstanding					
2017 Junior Debt, maturing February 15, 2037 (2017 Junior Convertible Debt)	2.250%	7.4%	\$321.1	686.3	686.3
Total Convertible Debt				4,481.3	4,481.3
Gross long-term debt including current maturities				12,314.3	4,481.3
Less: Debt discount ⁽²⁾				(1,327.0)	(1,372.9)
Less: Debt issuance costs ⁽³⁾				(101.2)	(40.1)
Net long-term debt including current maturities				10,886.1	3,068.3
Less: Current maturities ⁽⁴⁾				(1,335.0)	(1,309.9)
Net long-term debt				\$9,551.1	\$1,758.4

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

⁽²⁾ The unamortized discount includes the following (in millions):

	September 30, 2018	March 31, 2018
2023 Senior Secured Notes	\$(4.9)	\$—
2021 Senior Secured Notes	(4.7)	—
2017 Senior Convertible Debt (589.4)	(616.3)	
2015 Senior Convertible Debt (376.2)	(400.3)	
2017 Junior Convertible Debt (351.8)	(356.3)	

Total unamortized discount \$(1,327.0) \$(1,372.9)

⁽³⁾ Debt issuance costs include the following (in millions):

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	September 30, 2018	March 31, 2018
Senior Credit Facility	\$ (16.5)	\$ (5.9)
Term Loan Facility	(30.0)	—
2023 Senior Secured Notes	(11.4)	—
2021 Senior Secured Notes	(10.8)	—
2017 Senior Convertible Debt	(15.4)	(16.1)
2015 Senior Convertible Debt	(13.8)	(14.8)
2017 Junior Convertible Debt	(3.3)	(3.3)
Total debt issuance costs	\$ (101.2)	\$ (40.1)

⁽⁴⁾ Current maturities include the full balance of the 2015 Senior Convertible Debt.

Expected maturities relating to the Company's long-term debt (including current maturities) as of September 30, 2018 are as follows (in millions):

Fiscal year ending March 31,	Expected Maturities
2019	\$—
2020	—
2021	—
2022	1,000.0
2023	—
Thereafter	11,314.3
Total	\$ 12,314.3

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

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

Dividend adjusted rates as of September 30,
2018

	Conversion Rate, adjusted	Approximate Conversion Price, adjusted	Incremental Share Factor, adjusted	Maximum Conversion Rate, adjusted
2017 Senior Convertible Debt	10.2005	\$ 98.03	5.1002	14.5357
2015 Senior Convertible Debt	15.9069	\$ 62.87	7.9535	22.2697
2017 Junior Convertible Debt	10.3827	\$ 96.31	5.1914	14.5357

As of September 30, 2018, the holders of the 2015 Senior Convertible Debt have the right to convert their debentures between October 1, 2018 and December 31, 2018 because the Company's common stock price has exceeded the Conversion Price by 130% for the specified period of time during the quarter ended September 30, 2018. As of September 30, 2018, the 2015 Senior Convertible Debt is convertible and had a value if converted above par of \$660.3 million. The 2015 Senior Convertible Debt is included in the current portion of long-term debt.

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

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Interest expense related to long-term debt includes the following (in millions):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Interest expense on convertible debt				
Debt issuance amortization	\$0.9	\$0.9	\$1.8	\$1.8
Amortization of debt discount - non cash interest expense	27.9	26.3	55.4	52.3
Coupon interest expense	19.3	19.4	38.6	38.8
Total interest expense on convertible debt	48.1	46.6	95.8	92.9
Interest expense on Term Loan Facility and Senior Secured Notes				
Debt issuance amortization	3.6	—	4.9	—
Interest expense	51.7	—	70.0	—
Total interest expense on Term Loan Facility and Senior Secured Notes	55.3	—	74.9	—
Total interest expense on convertible debt, Term Loan Facility, and Senior Secured Notes	\$103.4	\$46.6	\$170.7	\$92.9

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 8.38 years, 6.38 years, and 18.38 years for the 2017 Senior Convertible Debt, 2015 Senior Convertible Debt, and 2017 Junior Convertible Debt, respectively.

In November 2017, the Company called for redemption \$14.6 million in principal value of the remaining outstanding 2007 Junior Convertible Debt with an effective redemption date of December 15, 2017 for which substantially all holders submitted requests to convert. Prior to the call, conversion requests were received in both the second and third quarters of fiscal 2018. Total conversions for fiscal 2018 were for a principal amount of \$32.5 million for which the Company settled the principal amount in cash and issued 0.5 million shares of its common stock in respect of the conversion value in excess of the principal amount for the conversions occurring prior to the redemption notice and \$41.0 million in cash for the conversion value in excess of the principal amount for the conversion requests received after the notice of redemption. A loss on total conversions was recorded for \$2.2 million.

In June 2017, the Company exchanged in privately negotiated transactions \$111.3 million aggregate principal amount of its 2007 Junior Convertible Debt for (i) \$111.3 million principal amount of 2017 Junior Convertible Debt with a market value of \$119.3 million plus (ii) the issuance of 3.2 million shares of the Company's common stock with a value of \$254.6 million, of which \$56.3 million was allocated to the fair value of the liability and \$321.1 million was allocated to the reacquisition of the equity component for total consideration of \$374.0 million. The transaction resulted in a loss on settlement of the 2007 Junior Convertible Debt of approximately \$13.8 million, which represented the difference between the fair value of the liability component at time of repurchase and the sum of the carrying values of the debt component and any unamortized debt issuance costs. The debt discount on the new 2017 Junior Convertible Debt was the difference between the par value and the fair value of the debt resulting in a debt discount of \$55.1 million which will be amortized to interest expense using the effective interest method over the term of the debt.

In February 2017, the Company issued the 2017 Senior Convertible Debt and 2017 Junior Convertible Debt for net proceeds of \$2.04 billion and \$567.7 million, respectively. In connection with the issuance of these instruments, the Company incurred issuance costs of \$33.7 million, of which \$17.8 million and \$3.4 million was recorded as two convertible debt issuance costs related to the 2017 Senior Convertible Debt and 2017 Junior Convertible Debt, respectively, and will be amortized using the effective interest method over the term of the debt. The balance of \$12.5

million in fees was recorded to equity. Interest on both instruments is payable semi-annually on February 15 and August 15 of each year.

In February 2015, the Company issued the 2015 Senior Convertible Debt for net proceeds of approximately \$1.69 billion. In connection with the issuance, the Company incurred issuance costs of \$30.3 million, of which \$20.4 million was recorded as debt issuance costs and will be amortized using the effective interest method over the term of the debt. The balance of \$9.9 million was recorded to equity.

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The Company utilized the proceeds from the issuances of the 2017 Senior Convertible Debt, 2017 Junior Convertible Debt, and 2015 Senior Convertible Debt to reduce amounts borrowed under its Credit Facility and to settle a portion of the 2007 Junior Convertible Debt in privately negotiated transactions. In February 2017 and February 2015, the Company settled \$431.3 million and \$575.0 million, respectively, in aggregate principal of its 2007 Junior Convertible Debt. The 2015 repurchase consisted solely of cash. In February 2017, the Company used cash of \$431.3 million and an aggregate of 12.0 million in shares of the Company's common stock valued at \$862.7 million for total consideration of \$1,293.9 million to repurchase \$431.3 million of the 2007 Junior Convertible Debt, of which \$188.0 million was allocated to the liability component and \$1,105.9 million was allocated to the equity component. In addition, in February 2017, there was an inducement fee of \$5.0 million which was recorded in the consolidated statements of income in loss on settlement of convertible debt. The consideration transferred in February 2015 was \$1,134.6 million, of which \$238.3 million was allocated to the liability component and \$896.3 million was allocated to the equity component. In the case of both settlements of the 2007 Junior Convertible Debt, the consideration was allocated to the liability and equity components using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt prior to the retirement. The transactions resulted in a loss on settlement of convertible debt of approximately \$43.9 million and \$50.6 million in fiscal 2017 and fiscal 2015, respectively, which represented, in each case, the difference between the fair value of the liability component at time of repurchase and the sum of the carrying values of the debt component and any unamortized debt issuance costs.

Senior Secured Notes

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

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

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

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

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

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Credit Facility

In May 2018, the Company amended and restated the Credit Facility to, among other things, increase the size of the Revolving Loan Facility (as defined below) thereunder to \$3.84 billion from \$3.12 billion at March 31, 2018. In connection with the amendment and restatement of the Credit Facility, the Company incurred issuance costs of \$13.6 million which will be amortized using the effective interest method over the term of the debt. In the three months ended September 30, 2018, the Company terminated the commitments for the 2020 Revolving Loans which decreased the capacity of the Revolving Loan Facility to \$3.60 billion.

The Credit Facility provides for a revolving loan facility (the "Revolving Loan Facility") in an aggregate principal amount of approximately \$3.60 billion, with a \$250.0 million foreign currency sublimit, a \$50.0 million letter of credit sublimit and a \$25.0 million swingline loan sublimit. The Credit Facility consists of approximately \$3.60 billion of revolving loan commitments that terminate on May 18, 2023 (the "2023 Maturity Date"). The \$244.3 million of revolving loan commitments (the "2020 Revolving Loans") that would terminate on February 4, 2020 were canceled in the three months ended September 30, 2018. The Revolving Loans bear interest, at the Company's option, at the base rate plus a spread of 0.00% to 1.00% or an adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a spread of 1.00% to 2.00%, in each case with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period.

The Credit Facility permits the Company to add one or more incremental term loan facilities (in addition to the Term Loans) and/or increase the commitments under the Revolving Loan Facility from time to time, subject, in each case, to the receipt of additional commitments from existing and/or new lenders and pro forma compliance with a consolidated senior leverage ratio set forth in the Credit Facility.

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

In May 2018, the Company borrowed \$3.0 billion aggregate principal amount of loans under the Term Loan Facility ("Term Loans"). In connection with such borrowings, the Company incurred issuance costs of \$34.7 million which will be amortized using the effective interest method over the term of the debt. The Credit Facility provides for quarterly amortization payments of the Term Loans on the last business day of each March, June, September and December, commencing with the last business day of the first full fiscal quarter to occur after the Merger effective date, equal to 0.25% of the aggregate original principal amount of the Term Loans. In addition, the Credit Facility requires mandatory prepayments of the Term Loans from the incurrence of debt not otherwise permitted to be incurred under the Credit Facility, certain asset sales and certain excess cash flow. Mandatory prepayments with excess cash flow (as defined in the Credit Facility) are required to be made beginning with the Company's fiscal year ending March 30, 2020 in an amount equal to 50%, 25% or 0% of the excess cash flow for such fiscal year, depending on the Company's senior leverage ratio. The Company may prepay the Term Loans at any time without premium or penalty. Term Loans repaid or prepaid may not be reborrowed. The Company voluntarily prepaid \$267.0 million of principal on the Term Loan Facility in the second quarter of fiscal 2019 which effectively paid off all of the quarterly amortizing principal payments mentioned above, in advance. The Company de-recognized \$2.9 million in deferred financing fees in connection with the payoff.

Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three-month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Interest expense related to the Credit Facility was approximately

\$34.7 million and \$49.5 million in the three and six months ended September 30, 2018, respectively, compared to \$2.3 million and \$5.0 million for the three and six months ended September 30, 2017, respectively. Principal, together with all accrued and unpaid interest, is due and payable on the 2023 Maturity Date in the case of revolving loans under the credit facility and May 29, 2025 in the case of the term loans. The Company pays a quarterly commitment fee on the available but unused portion of its line of credit which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Credit Facility 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

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case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a senior leverage ratio, a total leverage ratio and an interest coverage ratio, all measured quarterly and calculated on a consolidated basis. At September 30, 2018, the Company was in compliance with these financial covenants.

The financial covenants include limits on the Company's consolidated total leverage ratio and senior ratio. The maximum Total Leverage Ratio (capitalized terms not otherwise defined in this Form 10-Q have the meaning of the defined terms in the applicable agreements) cannot exceed (a) 6.75 to 1.00 for any such period ended on or after the Microsemi Acquisition Closing Date to (but excluding) the first anniversary of the Microsemi Acquisition Closing Date, (b) 6.25 to 1.00 for any such period ended on or after the first anniversary of the Microsemi Acquisition Closing Date to (but excluding) the second anniversary of the Microsemi Acquisition Closing Date to (but excluding) the second anniversary of the Microsemi Acquisition Closing Date and (c) 5.75 to 1.00 for any such period ended on or after the second anniversary of the Microsemi Acquisition Closing Date. The total leverage ratio is calculated as Consolidated Total Indebtedness, excluding the Junior Convertible Debt up to a \$700 million maximum, to Consolidated EBIDTA for a period of four consecutive quarters. The Credit Facility also requires that the Senior Leverage Ratio not exceed (a) 4.75 to 1.00 for any such period ended from (and including) the Microsemi Acquisition Closing Date to (but excluding) the first anniversary of the Microsemi Acquisition Closing Date, (b) 4.25 to 1.00 for any such period ended on or after the first anniversary of the Microsemi Acquisition Closing Date to (but excluding) the second anniversary of the Microsemi Acquisition Closing Date and (c) 3.75 to 1.00 for any such period ended on or after the second anniversary of the Microsemi Acquisition Closing Date. The senior leverage ratio is calculated as Consolidated Senior Indebtedness to Consolidated EBIDTA for four consecutive quarters. The Company is also required to comply with a Minimum Interest Coverage Ratio of at least 3.25 to 1.00 for any period ended on or after the Microsemi Acquisition Closing Date, measured quarterly.

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

Note 14. Pension Plans

The Company has defined benefit pension plans that cover certain French and German employees. Most of these acquired defined pension plans are unfunded; however, one of the pension plans in Germany is insured and the Company has pledged the insurance contracts to the pensioners. Accordingly, the contracts are now considered to be a plan asset. As the plan assets are insurance contracts, the Company does not control the investment strategy and thus cannot influence the return on investments. The insurance payments are guaranteed by the insurer and should the insurer default on its obligation, the security fund for insurance companies in Germany would assume the contracts. 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 aggregate net pension expense relating to these plans is as follows (in millions):

	Three	Six		
	Months	Months		
	Ended	Ended		
	September	September		
	30,	30,		
	2018	2017	2018	2017
Service costs	\$0.4	\$0.4	\$0.8	\$0.8
Interest costs	0.2	0.2	0.5	0.4
Amortization of actuarial loss	0.2	0.2	0.5	0.4
Net pension period cost	\$0.8	\$0.8	\$1.8	\$1.6

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Interest costs and amortization of actuarial losses are recorded in the other income, net line item in the statements of income. The Company's net periodic pension cost for fiscal 2019 is expected to be approximately \$3.2 million. Cash funding for benefits paid was \$0.2 million and \$0.4 million for the three and six months ended September 30, 2018, respectively, and \$0.2 million and \$0.3 million, respectively, for the three and six months ended September 30, 2017. The Company expects total contributions to these plans to be approximately \$1.1 million in fiscal 2019.

Note 15. Contingencies

In the ordinary course of the Company's business, it is exposed to various liabilities as a result of contracts, product liability, customer claims 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.

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

Continental Claim ICC Arbitration. On December 29, 2016, Continental Automotive GmbH ("Continental") filed a Request for Arbitration with the ICC, naming as respondents the Company's subsidiaries Atmel Corporation, Atmel SARL, Atmel Global Sales Ltd., and Atmel Automotive GmbH (collectively, "Atmel"). The Request alleges that a quality issue affecting Continental airbag control units in certain recalled vehicles stems from allegedly defective Atmel application specific integrated circuits ("ASICs"). Continental seeks to recover from Atmel all related costs and damages incurred as a result of the vehicle manufacturers' airbag control unit-related recalls, currently alleged to be \$227.7 million. The Company's Atmel subsidiaries intend to defend this action vigorously.

Individual Labor Actions by former LFR Employees. In June 2010, Atmel Rousset sold its wafer manufacturing business in Rousset, France to LFoundry GmbH ("LF"), the German parent of LFoundry Rousset ("LFR"). LFR then leased the Atmel Rousset facility to conduct the manufacture of wafers. More than three years later, LFR became insolvent and later liquidated. In the wake of LFR's insolvency and liquidation, over 500 former employees of LFR have filed individual labor actions against Atmel Rousset in a French labor court. The Company's Atmel Rousset subsidiary believes that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with the Atmel Rousset subsidiary is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. The Company's Atmel Rousset subsidiary therefore intends to defend vigorously against each of these claims.

Additionally, complaints have been filed in a regional court in France on behalf of the same group of employees against Microchip Technology Rousset, Atmel Switzerland Sarl, Atmel Corporation and Microchip Technology Incorporated alleging that the sale of the Atmel Rousset production unit to LF was fraudulent and should be voided. These claims are specious and the defendant entities therefore intend to defend vigorously against these claims. 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, we and certain of our officers were named in two putative shareholder class action lawsuits filed in the United States District Court for the District of Arizona, captioned Jackson v. Microchip Technology Inc., et al., Case No. 2:18-cv-02914-JJT and Maknissian v.

Microchip Technology Inc., et al., Case No. 2:18-cv-02924-JJT. The Jackson complaint is allegedly brought on behalf of a putative class of purchasers of Microchip common stock between March 2, 2018 and August 9, 2018, and the Maknissian complaint is allegedly brought on behalf of a putative class of purchasers of Microchip securities between May 31, 2018 and August 9, 2018. The complaints assert claims for alleged violations of the federal securities laws and generally allege that the defendants issued materially false and misleading statements and failed to disclose material adverse facts about our business, operations, and prospects during the putative class periods. The complaints seek, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative classes. We anticipate that the two actions will be consolidated. We intend to vigorously defend this litigation.

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Peterson, et al. v. Sanghi, et al. On October 9, 2018, four former officers of Microsemi Corporation filed a lawsuit in the Superior Court of California in Orange County against us and four of our officers asserting claims for slander per se, libel per se, trade libel, and violations of California Business and Professions Code Section 17200. The complaint seeks unspecified compensatory and punitive damages and attorneys' fees and costs. We intend to vigorously defend this litigation.

The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, the Company accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, the Company records an accrual for the amount within the range that constitutes its best estimate. If the Company can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, the Company uses the amount that is the low end of such range. As of September 30, 2018, the Company's estimate of the aggregate potential liability that is possible but not probable is approximately \$100 million in excess of amounts accrued.

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$163.7 million. There are some licensing agreements in place that do not specify indemnification limits. As of September 30, 2018, 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.

Note 16. Derivative Instruments

Freestanding Derivative Forward Contracts

The Company has international operations and is thus subject to foreign currency rate fluctuations. Approximately 99% of the Company's sales are U.S. Dollar denominated. However, a significant amount of the Company's expenses and liabilities are denominated in foreign currencies and subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Foreign exchange rate fluctuations after the effects of hedging activity resulted in an immaterial amount and a net loss of \$4.4 million for the three and six months ended September 30, 2018, respectively, compared to net gains of \$5.0 million and \$9.6 million for the three and six months ended September 30, 2017, respectively. As of September 30, 2018 and March 31, 2018, the Company had no foreign currency forward contracts outstanding. The Company recognized an immaterial amount of net losses and gains on foreign currency forward contracts in each of the three and six months ended September 30, 2018 and 2017. Gains and losses from changes in the fair value of these foreign currency forward contracts and foreign currency exchange rate fluctuations are credited or charged to other income (expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

Commodity Price Risk

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

Note 17. Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss) (AOCI), net of tax, for the six months ended September 30, 2018 (in millions):

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	Unrealized holding gains (losses) available-for-sale debt securities	Defined benefit pension plans	Foreign Currency	Total
Accumulated other comprehensive income (loss) at March 31, 2018	\$ 1.9	\$(10.1)	\$(9.4)	\$(17.6)
Impact of change in accounting principle	(1.7)	—	—	(1.7)
Opening Balance as of April 1, 2018	0.2	(10.1)	(9.4)	(19.3)
Other comprehensive (loss) income before reclassifications	(5.6)	3.5	(1.4)	(3.5)
Amounts reclassified from accumulated other comprehensive loss	5.6	0.5	—	6.1
Net other comprehensive income (loss)	—	4.0	(1.4)	2.6
Accumulated other comprehensive income (loss) at September 30, 2018	\$ 0.2	\$(6.1)	\$(10.8)	\$(16.7)

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

Description of AOCI Component	Three Months Ended September 30,		Six Months Ended September 30,		Related Statement of Income Line
	2018	2017	2018	2017	
Unrealized losses on available-for-sale debt securities	\$ —	\$ —	—\$ 5.6	\$ —	Other income (loss)
Amortization of actuarial loss	0.2	—	0.5	—	Other income (loss)
Reclassification of realized transactions, net of taxes	\$ 0.2	\$ —	—\$ 6.1	\$ —	Net income

Note 18. Share-Based Compensation

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

Description of AOCI Component	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Cost of sales ⁽¹⁾	\$3.9	\$3.7	\$7.5	\$7.1
Research and development	19.7	10.6	33.8	20.9
Selling, general and administrative	17.8	9.3	29.5	18.0
Special charges and other, net	1.2	—	17.1	—
Pre-tax effect of share-based compensation	42.6	23.6	87.9	46.0
Income tax benefit ⁽²⁾	9.0	7.8	19.1	15.3
Net income effect of share-based compensation	\$33.6	\$15.8	\$68.8	\$30.7

⁽¹⁾ During the three and six months ended September 30, 2018, \$4.4 million and \$7.9 million, respectively, of share-based compensation expense was capitalized to inventory and \$3.9 million and \$7.5 million, respectively, of previously capitalized share-based compensation expense in inventory was sold. During the three and six months ended September 30, 2017, \$3.1 million and \$5.8 million, respectively, of share-based compensation expense was capitalized to inventory and \$3.7 million and \$7.1 million of previously capitalized share-based compensation expense

in inventory was sold.

(2) Amounts exclude excess tax benefits related to share-based compensation of \$4.0 million and \$9.0 million, respectively, for the three and six months ended September 30, 2018 and \$8.2 million and \$14.1 million, respectively, for the three and six months ended September 30, 2017.

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Microsemi Acquisition-related Equity Awards

In connection with its acquisition of Microsemi, the Company assumed certain restricted stock units (RSUs), stock appreciation rights (SARs), and stock options granted by Microsemi. The assumed awards were measured at the acquisition date based on the estimated fair value, which was a total of \$175.4 million. A portion of that fair value, \$53.9 million, which represented the pre-acquisition vested service provided by employees to Microsemi, was included in the total consideration transferred as part of the acquisition. As of the acquisition date, the remaining portion of the fair value of those awards was \$121.5 million, representing post-acquisition share-based compensation expense that will be recognized as these employees provide service over the remaining vesting periods. During the six months ended September 30, 2018, the Company recognized \$40.2 million of share-based compensation expense in connection with the acquisition of Microsemi, of which \$1.6 million was capitalized into inventory and \$17.1 million was due to the accelerated vesting of outstanding equity awards upon termination of certain Microsemi employees.

Note 19. Net Income Per Common Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 96.3	\$ 189.2	\$ 132.0	\$ 359.7
Weighted average common shares outstanding	235.8	233.3	235.5	231.4
Dilutive effect of stock options and RSUs	4.3	4.5	4.2	4.4
Dilutive effect of 2007 Junior Convertible Debt	—	0.7	—	2.4
Dilutive effect of 2015 Senior Convertible Debt	11.7	6.3	12.3	5.6
Dilutive effect of 2017 Senior Convertible Debt	—	—	—	—
Dilutive effect of 2017 Junior Convertible Debt	—	—	—	—
Weighted average common and	251.8	244.8	252.0	243.8

potential
common shares
outstanding

Basic net income per common share	\$ 0.41	\$ 0.81	\$ 0.56	\$ 1.55
Diluted net income per common share	\$ 0.38	\$ 0.77	\$ 0.52	\$ 1.48

The Company computed basic net income per common share using net income and the weighted average number of common shares outstanding during the period. The Company computed diluted net income per common share using net income and 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 the three and six months ended September 30, 2018 and 2017.

Diluted net income per common share for three and six months ended September 30, 2018 includes 11.7 million shares and 12.3 million shares issuable upon the exchange of the Company's 2015 Senior Convertible Debt. There were no shares issuable upon the exchange of the Company's 2017 Junior Convertible Debt or the Company's 2017 Senior Convertible Debt. The Company's 2007 Junior Convertible Debt was fully settled as of December 31, 2017. Diluted net income per common share for the three and six months ended September 30, 2017 included 0.7 million shares and 2.4 million shares issuable upon the exchange of the Company's 2007 Junior Convertible Debt and 6.3 million shares and 5.6 million shares issuable upon the exchange of the Company's 2015 Senior Convertible Debt, respectively (see Note 13 for details on the convertible debt). The convertible debt has no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled 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 13 for details on the convertible debt):

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	Three Months Ended September 30, 2018		Six Months Ended September 30, 2017	
2007 Junior Convertible Debt ⁽¹⁾	\$—	\$23.58	\$—	\$23.64
2015 Senior Convertible Debt	\$63.02	\$64.06	\$63.14	\$64.21
2017 Senior Convertible Debt	\$98.27	\$99.90	\$98.47	\$100.13
2017 Junior Convertible Debt	\$96.55	\$98.15	\$96.74	\$98.37

⁽¹⁾ No longer outstanding as of December 31, 2017.

Note 20. Stock Repurchase

The Company's Board of Directors previously approved a share repurchase program under which up to 15.0 million shares of common stock may be repurchased in the open market or in privately negotiated transactions. There were no repurchases of common stock during the three and six months ended September 30, 2018. There is no expiration date associated with this repurchase program. As of September 30, 2018, the Company held approximately 17.0 million shares as treasury shares.

Note 21. Dividends

A quarterly cash dividend of \$0.3640 per share was paid on September 4, 2018 in the aggregate amount of \$85.9 million. A quarterly cash dividend of \$0.3645 per share was declared on November 7, 2018 and will be paid on December 5, 2018 to stockholders of record as of November 21, 2018. The Company expects the December 5, 2018 payment of its quarterly cash dividend to be approximately \$86.3 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report, including "Part I – Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II - Item 1A Risk Factors" contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "plan," "expect," "future," "continue," "intend" and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under "Risk Factors," beginning at page 57 and elsewhere in this Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. These forward-looking statements include, without limitation, statements regarding the following:

- The effects that uncertain global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines and modest pricing declines in certain of our more mature proprietary product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, fixed cost absorption, competition and economic conditions on gross margin;
- The amount of, and changes in, demand for our products and those of our customers;
- Our expectation that in the future we will acquire additional businesses that we believe will complement our existing businesses;
- Our expectation that in the future we will enter into joint development agreements or other business or strategic relationships with other companies;
- The level of orders that will be received and shipped within a quarter;
- Our expectation that our December 2018 days of inventory levels will be flat to up 10 days compared to the September 2018 levels. Our belief that our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- Anticipating increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances in our products;
- Our belief that deferred cost of sales are recorded at their approximate carrying value and will have low risk of material impairment;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;
- Our ability to increase the proprietary portion of our analog and interface product lines and the effect of such an increase;
- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities will provide sufficient capacity to respond to increases in demand with modest incremental capital expenditures;

- 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 anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- That our acquisition of Microsemi is expected to expand our range of solutions, products and capabilities by extending our served available market;
- Our reliance on government contracts could have a material adverse effect on results of operations;

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- 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;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The recoverability of our deferred tax assets;
- The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;
- That we intend to pay the one-time transition tax over a period of eight years;
- Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;
- Our belief that the estimates used in preparing our 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 currency rates;
- That a significant portion of our future cash generation will be in our foreign subsidiaries;
- Our intention to satisfy the lesser of the principal amount or the conversion value of our debentures in cash;
- Changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings;
- That each of these new tax provisions will have an impact on our tax expense for fiscal 2019 and future periods and the increase in the tax expense for Global Intangible Low-Taxed Income will be the most significant;
- Our intent to maintain a high-quality investment portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield; and
- Our ability to collect accounts receivable.

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of our overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three and six months ended September 30, 2018 compared to the three and six months ended September 30, 2017. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control solutions, including general purpose and specialized microcontrollers, development tools and related software, analog, interface, mixed signal and timing products, wired and wireless connectivity products, field-programmable gate array (FPGA) products, timing systems, memory products and Flash-IP licensing. We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, wide voltage range operation, mixed signal integration and ease of development, thus enabling timely and cost-effective integration of our solutions by our customers in their end products. We license our SuperFlash technology and other technologies to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of advanced microcontroller products, gate array, radio frequency (RF) and analog products that require embedded non-volatile

memory.

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

Our manufacturing operations include wafer fabrication, wafer probe and assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and assembly and test operations, and by employing statistical process control

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techniques, we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and the assembly and test profit margin. We do outsource a significant portion of our manufacturing requirements to third parties. Our acquisition of Microsemi significantly increased the amount of our outsourced manufacturing requirements.

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

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

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

See "Our operating results are impacted by both seasonality and the wide fluctuation of supply and demand in the semiconductor industry," on page 61 for discussion of the impact of seasonality on our business.

Acquisition of Microsemi

On May 29, 2018, we completed our acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. We paid an aggregate of approximately \$8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately \$53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards of Microchip, was approximately \$8.24 billion. In addition to the consideration transferred, we recognized in our consolidated financial statements \$3.15 billion in liabilities of Microsemi consisting of debt, taxes payable and deferred, pension obligations, restructuring, and contingent and other liabilities of which \$2.06 billion of existing debt was paid off. We financed the purchase price using approximately \$8.10 billion of borrowings consisting of \$3.10 billion under our

amended and restated revolving line of credit (the "Credit Facility"), \$3.00 billion under the term loan feature of the Credit Facility ("Term Loan Facility"), and \$2.00 billion in newly issued senior secured notes. We incurred \$22.0 million in costs related to the acquisition. As a result of the acquisition, Microsemi became a wholly owned subsidiary of Microchip. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. Our primary reason for this acquisition was to expand our range of solutions, products and capabilities by extending our served available market.

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Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, business combinations, share-based compensation, inventories, income taxes, senior and junior subordinated convertible debt and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue Recognition - Distributors (prior to our adoption of ASC 606 on April 1, 2018)

Our distributors worldwide generally had broad price protection and product return rights which prevented the sales pricing from being fixed or determinable at the time of shipment to our distributors. Therefore, revenue recognition was deferred until the pricing uncertainty was resolved, which generally occurred when the distributor sold the product to their customer. At the time of shipment to these distributors, we recorded a trade receivable for the selling price as there was a legally enforceable right to payment, relieved inventory for the carrying value of goods shipped since legal title had passed to the distributor, and recorded the gross margin in deferred income on shipments to distributors on our condensed consolidated balance sheets.

Deferred income on shipments to distributors effectively represented the gross margin on the sale to the distributor; however, the amount of gross margin that we recognized in the subsequent periods was less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of our products to their end customers and price protection concessions related to market pricing conditions.

We sold the majority of the items in our product catalog to our distributors worldwide at a uniform list price. However, distributors resold our products to end customers at a broad range of individually negotiated price points. The majority of our distributors' resales required a reduction from the original list price paid. Often, under these circumstances, we remitted back to the distributor a portion of their original purchase price after the resale transaction was completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits were on a per unit basis and were not given to the distributor until they provided information to us regarding the sale to their end customer. The price reductions varied significantly based on the customer, product, quantity ordered, geographic location and other factors. Discounts to a price less than our cost have historically been rare. The effect of granting these credits established the net selling price to our distributors for the product and resulted in the net revenue recognized by us when the product was sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represented the amount of distributors' original purchase price that was credited back to the distributors in the subsequent periods. We did not reduce deferred income on shipments to distributors or accounts receivable by anticipated concessions; rather, price concessions were typically recorded against deferred income on shipments to distributors and accounts receivable

when incurred, which was generally at the time the distributor sold the product. At March 31, 2018, we had approximately \$479.6 million of deferred revenue and \$145.8 million in deferred cost of sales recognized as \$333.8 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that was ultimately recognized in our income statement was lower than the amount reflected on the balance sheet at March 31, 2018 due to additional price credits that were granted to the distributors when the product was sold to their customers. These additional price credits historically have resulted in the deferred income approximating the overall gross margins that we recognized in the distribution channel of our business.

Distributor advances, reflected as a reduction of deferred income on shipments to distributors on our condensed consolidated balance sheets, totaled \$203.9 million at March 31, 2018. On sales to distributors, our payment terms generally require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. The sales price to our distributors may be higher than the amount that the distributors will ultimately owe us because distributors often negotiate price reductions after purchasing products from us and such reductions are often significant. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis,

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generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of our distributors. As such, we have entered into agreements with certain distributors whereby we advance 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 had no impact on our revenue recognition or our condensed consolidated statements of income. We processed discounts taken by distributors against our deferred income on shipments to distributors' balance and true-up the advanced amounts generally after the end of each completed fiscal quarter. 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 us at any time.

We reduced product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection was granted to distributors on the inventory they had on hand at the date the price protection was offered. When we reduced the price of our products, it allowed the distributor to claim a credit against its outstanding accounts receivable balances based on the new price of the inventory it had on hand as of the date of the price reduction. There was no immediate revenue impact from the price protection, as it was reflected as a reduction of the deferred income on shipments to distributors' balance.

Products returned by distributors and subsequently scrapped have historically been immaterial to our consolidated results of operations. We routinely evaluated the risk of impairment of the deferred cost of sales component of the deferred income on shipments to distributors account. Because of the historically immaterial amounts of inventory that have been scrapped, and historically rare instances where discounts given to a distributor resulted in a price less than our cost, we believe the deferred costs were recorded at their approximate carrying value.

Revenue Recognition (subsequent to our adoption of ASC 606 on April 1, 2018)

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: (1) identify the contract with the customer, (2) identify performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) 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, as defined by ASC 606, 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 end customer.

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, as defined by ASC 606, 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.

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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 or directly in contributed capital. 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 September 30, 2018, we have never recorded an impairment charge against our goodwill balance.

Share-based Compensation

We measure at fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, restricted stock units (RSUs) and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. For the past several years, we have utilized 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 during the six months ended September 30, 2018 was \$87.9 million, of which \$80.4 million was reflected in operating expenses and \$7.5 million was reflected in cost of sales. Total share-based compensation included in our inventory balance was \$8.6 million at September 30, 2018.

We recognize forfeitures as they occur. 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. There was no charge to cost of sales for reduced production levels in each of the six month periods ended September 30, 2018 and 2017.

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Income Taxes

As part of the process of preparing our condensed 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 condensed 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, including state net operating loss carryforwards and state tax credits, where it is more likely than not that some portion, or all of such assets, will not be realized. We provided valuation allowances for certain deferred tax assets related to Microsemi. Due to the Tax Cuts and Jobs Act (the "Act"), we released our valuation allowance on foreign tax credits during the period ending March 31, 2018, which was provisional. We are still evaluating how the Act impacts our valuation allowance on state net operating loss carryforwards and state tax credits, and we may report an adjustment to the valuation allowances under Staff Accounting Bulletin ("SAB") 118 in the subsequent quarter. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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 United States and in various foreign jurisdictions. At this time, we do not know what the outcome of these audits will be. We record benefits for uncertain tax positions based on an assessment of whether it is more likely than not that the tax positions will be sustained based on their technical merits under currently enacted law. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If this threshold is met, we recognize the largest amount of the tax benefit that is more likely than not to be realized upon ultimate settlement.

The accounting model as defined in Accounting Standards Codification ("ASC") 740 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 not challenging 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 in 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 Act was enacted into law. The Act provides for numerous significant tax law changes and modifications including the reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and the creation of new taxes on certain foreign-sourced earnings. As a fiscal year-end taxpayer, certain provisions of the Act began to impact us in our third quarter of fiscal 2018, while other provisions have become effective for us in fiscal 2019.

In addition to the impacts of tax reform on fiscal 2018, the Act also establishes new tax laws that are effective for our fiscal 2019, including, but not limited to, (1) a new provision designed to tax low-taxed income of foreign subsidiaries ("GILTI"), which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50% to offset the income tax liability (subject to some limitations); (2) limitations on the deductibility of certain executive compensation; (3) limitations on the deductibility of interest expense; and (4) limitations on the use of FTCs to reduce the U.S. income tax liability. While each of these provisions will have an impact on our tax expense for fiscal 2019 and future periods, the increase in tax expense for GILTI is the most significant. In addition, we expect to be impacted by the limitations on the deductibility of interest expense, which we expect to generate disallowed interest expense carryforwards in future periods, causing an increase in our overall deferred tax asset position.

Due to the complexity of the new tax on low-taxed income of foreign subsidiaries, we are continuing to evaluate this provision of the Act and the application of ASC 740. Based on recent FASB deliberations, it appears we will be allowed to

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make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income as a current-period expense when incurred or (2) factoring such amounts into our measurement of our deferred taxes. Our selection of an accounting policy will depend, in part, on analyzing our facts to determine what the impact is expected to be under each method. As of September 30, 2018, we are still evaluating which accounting policy to utilize.

Senior and Junior Subordinated Convertible Debt

We separately account for the liability and equity components of our senior and junior subordinated convertible debt in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. 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 condensed consolidated statements of income. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding senior and junior subordinated 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 senior and junior subordinated convertible debentures 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 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 and disputes relating to the semiconductor industry are not uncommon, and we are, 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.

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 operational data as a percentage of net sales for the periods indicated:

	Three Months	Six Months
	Ended	Ended
	September 30,	September 30,

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	2018	2017	2018	2017
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	51.9	39.3	49.7	39.6
Gross profit	48.1	60.7	50.3	60.4
Research and development	15.5	13.2	14.9	13.3
Selling, general and administrative	12.3	11.3	12.9	11.5
Amortization of acquired intangible assets	11.9	11.9	11.5	12.2
Special charges and other, net	1.2	2.0	2.1	0.9
Operating income	7.2	% 22.3	% 8.9	% 22.5

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Net Sales

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

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

Three Months Ended September 30,			Six Months Ended September 30,			
2018	2017	% Change	2018	2017	% Change	
Net sales	\$1,432.5	\$1,012.1	41.5 %	\$2,644.9	\$1,984.3	33.3 %

The increases in net sales in the three and six months ended September 30, 2018 compared to the three and six months ended September 30, 2017 were due primarily to our acquisition of Microsemi. We sell a large number of products to a large and diverse customer base and, excluding the impact of our Microsemi acquisition, there was not any product, customer or market that accounted for a material portion of the change. The overall average selling price of our products increased significantly during the three and six months ended September 30, 2018 compared to the three and six months ended September 30, 2017 due to our acquisition of Microsemi, whose average selling price is higher than the average selling price of our historical business due to the types of products they offer and the types of customers and markets they serve.

As discussed in the following paragraphs, there were revenue gains across our product lines. Key factors impacting the amount of net sales during the three and six months ended September 30, 2018 compared to the three and six months ended September 30, 2017 include:

- our acquisition of Microsemi, which closed on May 29, 2018;
- global economic conditions in the markets we serve;
- semiconductor industry conditions;
- adoption of the new revenue recognition standard (ASC 606) on April 1, 2018
- our new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products; and
- continued market share gains in the segments of the markets we address.

Net sales by product line for the three and six months ended September 30, 2018 and 2017 were as follows (dollars in millions):

	Three Months Ended September 30, (unaudited)				Six Months Ended September 30, (unaudited)			
	2018	%	2017	%	2018	%	2017	%
Microcontrollers	\$778.6	54.3 %	\$665.2	65.9 %	\$1,500.9	56.7 %	\$1,300.8	65.5 %
	419.2	29.3	239.2	23.6	751.1	28.4	478.2	24.1

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Analog, interface, mixed signal and timing products

Memory products	48.1	3.4	52.1	5.1	98.1	3.7	101.6	5.1
Field-programmable gate array products	70.8	4.9	—	—	108.7	4.1	—	—
Technology licensing	38.2	2.7	25.8	2.5	64.9	2.5	50.8	2.6
Multi-market and other	77.6	5.4	29.8	2.9	121.2	4.6	52.9	2.7
Total net sales	\$1,432.5	100.0%	\$1,012.1	100.0%	\$2,644.9	100.0%	\$1,984.3	100.0%

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Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 54.3% and 56.7% of our net sales for the three and six months ended September 30, 2018, respectively, compared to approximately 65.9% and 65.5% of our net sales for the three and six months ended September 30, 2017, respectively. The decrease is due to our acquisition of Microsemi, whose microcontroller product line accounted for a relatively lower percentage of its total net sales.

Net sales of our microcontroller products increased 17.0% and 15.4% in the three and six months ended September 30, 2018, respectively, compared to the three and six months ended September 30, 2017. These sales increases were due primarily to our acquisition of Microsemi.

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

Analog, Interface, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 29.3% and 28.4% of our net sales for the three and six months ended September 30, 2018, respectively, compared to approximately 23.6% and 24.1% of our net sales for the three and six months ended September 30, 2017, respectively. The increase is due to our acquisition of Microsemi, whose analog, interface, mixed signal and timing product line accounted for a relatively higher percentage of its total net sales.

Net sales of our analog, interface, mixed signal and timing products increased 75.3% and 57.1% in the three and six months ended September 30, 2018, respectively, compared to the three and six months ended September 30, 2017. These sales increases were due primarily to our acquisition of Microsemi.

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

Memory Products

Sales of our memory products accounted for approximately 3.4% and 3.7% of our net sales for the three and six months ended September 30, 2018, respectively, compared to approximately 5.1% of our net sales for each of the

three and six months ended September 30, 2017, respectively.

Net sales of our memory products decreased 7.7% and 3.4% in the three and six months ended September 30, 2018, respectively, compared to the three and six months ended September 30, 2017. These sales decreases were due primarily to customer demand conditions.

Memory product pricing has historically been cyclical in nature, with steep price declines followed by periods of relative price stability, driven by changes in industry capacity at different stages of the business cycle. We have experienced, and expect to continue to experience, varying degrees of competitive pricing pressures in our memory products. We may be unable to maintain the average selling prices of our memory products as a result of increased pricing pressure in the future, which could adversely affect our operating results.

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Field-Programmable Gate Array (FPGA) Products

Our FPGA product line was primarily acquired as part of our acquisition of Microsemi on May 29, 2018. Sales of our FPGA products accounted for approximately 4.9% and 4.1%, respectively, of our net sales in the three and six months ended September 30, 2018.

Technology Licensing

Technology licensing revenue includes a combination of royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, and fees for engineering services. Technology licensing accounted for approximately 2.7% and 2.5% of our net sales for the three and six months ended September 30, 2018, respectively, compared to approximately 2.5% and 2.6% of our net sales for the three and six months ended September 30, 2017, respectively.

Net sales related to our technology licensing increased 48.1% and 27.8% in the three and six months ended September 30, 2018, respectively, compared to the three and six months ended September 30, 2017. Revenue from technology licensing can fluctuate over time based on the production activities of our licensees, the sales of intellectual property, and general economic and semiconductor industry conditions.

Multi-market and Other

Multi-market and Other (MMO) consists of 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 5.4% and 4.6% of our net sales for the three and six months ended September 30, 2018, respectively, compared to approximately 2.9% and 2.7% of our net sales for the three and six months ended September 30, 2017, respectively.

Net sales related to these services and products increased 160.4% and 129.1% in the three and six months ended September 30, 2018 compared to the three and six months ended September 30, 2017. These increases were due primarily to our acquisition of Microsemi, which significantly increased our portfolio of timing systems products.

MMO net sales can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our manufacturing services (wafer foundry and assembly and test subcontracting).

Distribution

Distributors accounted for approximately 49.7% and 51.3% of our net sales in the three and six months ended September 30, 2018 and approximately 53.5% and 54.5% of our net sales in the three and six months ended September 30, 2017. The decreases in these percentages in the periods ended September 30, 2018 compared to the periods ended September 30, 2017 are due to our acquisition of Microsemi, whose distributors accounted for a smaller portion of net sales than Microchip's historical business. 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 September 30, 2018, our distributors maintained 37 days of inventory of our products compared to 36 days of inventory at our distributors at March 31, 2018. Our acquisition of Microsemi initially caused an increase in our overall days of inventory maintained by our distributors, however, inventory levels at Microsemi's distributors have decreased since the completion of the acquisition, bringing the overall days of inventory back to our historical levels. Over the past five fiscal years, the days of inventory maintained by our distributors have fluctuated between 31 days and 40 days. Prior to our adoption of ASU 2014-09-Revenue from Contracts with Customers (Topic 606) on April 1, 2018, we did not believe that inventory holding patterns at our distributors materially impacted our net sales due to the fact that we recognized revenue based on when the distributor sold the product to their customer. Upon our adoption of Topic 606 on April 1, 2018, we are required to recognize revenue from distributors at the time our products are sold to the distributor. As a result, beginning April 1, 2018, inventory holding patterns at our distributors may have a material impact on our net sales.

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Sales by Geography

Sales by geography for the three and six months ended September 30, 2018 and 2017 were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	September 30, (unaudited)				September 30, (unaudited)			
	2018	%	2017	%	2018	%	2017	%
Americas	\$350.2	24.4 %	\$182.1	18.0 %	\$621.2	23.5 %	\$364.4	18.4 %
Europe	329.2	23.0	243.5	24.0	618.2	23.4	469.2	23.6
Asia	753.1	52.6	586.5	58.0	1,405.5	53.1	1,150.7	58.0
Total net sales	\$1,432.5	100.0%	\$1,012.1	100.0%	\$2,644.9	100.0%	\$1,984.3	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 80% and 82% of our total net sales in the three and six months ended September 30, 2018 compared to approximately 84% of our total net sales in each of the three and six months ended September&#