UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2024

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

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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
(Address of Registrant's Principal Executive Offices)

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

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

Title of Each Class	**Trading Symbol(s)**	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value	MCHP	NASDAQ Stock Market LLC (Nasdaq Global Select Market)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth 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).
Yes ☐ No ☒

The number of shares outstanding of the registrant's Common Stock, $0.001 par value, as of January 28, 2025 was 537,818,969.

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

Defined Terms[1]

Term	Definition
4.333% 2023 Notes	2023 Senior Unsecured Notes, matured on June 1, 2023
2.670% 2023 Notes	2023 Senior Unsecured Notes, matured on September 1, 2023
0.972% 2024 Notes	2024 Senior Unsecured Notes, matured on February 15, 2024
0.983% 2024 Notes	2024 Senior Unsecured Notes, matured on September 1, 2024
4.250% 2025 Notes	2025 Senior Unsecured Notes, maturing on September 1, 2025
4.900% 2028 Notes	2028 Senior Unsecured Notes, maturing on March 15, 2028
5.050% 2029 Notes	2029 Senior Unsecured Notes, maturing on March 15, 2029
5.050% 2030 Notes	2030 Senior Unsecured Notes, maturing on February 15, 2030
2015 Senior Convertible Debt	2015 Senior Convertible Debt, maturing on February 15, 2025
2017 Senior Convertible Debt	2017 Senior Convertible Debt, maturing on February 15, 2027
2020 Senior Convertible Debt	2020 Senior Convertible Debt, matured on November 15, 2024
2024 Senior Convertible Debt	2024 Senior Convertible Debt, maturing on June 1, 2030
2017 Junior Convertible Debt	2017 Junior Convertible Debt which was fully settled in May 2023
2025 Term Loan Facility	$750.0 million term loan facility created pursuant to the amended Credit Agreement which was fully settled in December 2024
ASU	Accounting Standards Update
CEMs	Client engagement managers
CHIPS Act	CHIPS and Science Act of 2022
Commercial Paper	Short-term unsecured promissory notes, of up to $2.75 billion outstanding at any one time
Convertible Debt	2015 Senior Convertible Debt, 2017 Senior Convertible Debt, 2020 Senior Convertible Debt, 2024 Senior Convertible Debt, and 2017 Junior Convertible Debt prior to the May 2023 settlement
Credit Agreement	Amended and Restated Credit Agreement, dated as of December 16, 2021, among the Company, as borrower, the lenders from time to time party thereto, and J.P. Morgan Chase Bank, N.A., as administrative agent, as amended by the First Incremental Term Loan Amendment, dated as of August 31, 2023, as further amended by the Second Amendment to the Amended and Restated Credit Agreement, dated as of November 8, 2024
EAR	Export Administration Regulation
ESEs	Embedded solutions engineers
ESG	Environmental, social and governance
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FPGA	Field-programmable gate array
LTSAs	Long-term supply agreements
OEMs	Original equipment manufacturers
R&D	Research and development
Revolving Credit Facility	$2.75 billion revolving credit facility created pursuant to the Credit Agreement
RSUs	Restricted stock units
SEC	U.S. Securities and Exchange Commission
Senior Credit Facilities	Revolving Credit Facility and 2025 Term Loan Facility
Senior Indebtedness	Revolving Credit Facility, 2025 Term Loan Facility, Commercial Paper, 4.333% 2023 Notes, 2.670% 2023 Notes, 0.972% 2024 Notes, 0.983% 2024 Notes, 4.250% 2025 Notes, 4.900% 2028 Notes, 5.050% 2029 Notes, and 5.050% 2030 Notes
Senior Notes	2.670% 2023 Notes, 0.972% 2024 Notes, 0.983% 2024 Notes, 4.250% 2025 Notes, 4.900% 2028 Notes, 5.050% 2029 Notes, and 5.050% 2030 Notes
SiC	Silicon Carbide
SOFR	Secured Overnight Financing Rate
U.S. GAAP	U.S. Generally Accepted Accounting Principles

(1) Certain terms used within this Form 10-Q are defined in the above table.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2024	March 31, 2024
ASSETS		
Cash and cash equivalents	$ 586.0	$ 319.7
Accounts receivable, net	857.2	1,143.7
Inventories	1,356.3	1,316.0
Other current assets	196.3	233.6
Total current assets	2,995.8	3,013.0
Property, plant and equipment, net	1,152.1	1,194.6
Goodwill	6,684.8	6,675.4
Intangible assets, net	2,518.2	2,781.8
Long-term deferred tax assets	1,703.9	1,596.5
Other assets	577.4	611.9
Total assets	$ 15,632.2	$ 15,873.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 195.9	$ 213.0
Accrued liabilities	1,134.4	1,307.0
Current portion of long-term debt	—	999.4
Total current liabilities	1,330.3	2,519.4
Long-term debt	6,749.5	5,000.4
Long-term income tax payable	598.7	649.2
Long-term deferred tax liability	22.9	28.8
Other long-term liabilities	899.3	1,017.6
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 900,000,000 shares; 577,905,582 shares issued and 537,763,588 shares outstanding at December 31, 2024; 577,806,659 shares issued and 536,663,691 shares outstanding at March 31, 2024	0.5	0.5
Additional paid-in capital	2,481.2	2,482.9
Common stock held in treasury: 40,141,994 shares at December 31, 2024; 41,142,968 shares at March 31, 2024	(2,629.6)	(2,581.6)
Accumulated other comprehensive loss	(3.3)	(3.5)
Retained earnings	6,182.7	6,759.5
Total stockholders' equity	6,031.5	6,657.8
Total liabilities and stockholders' equity	$ 15,632.2	$ 15,873.2

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Net sales	$ 1,026.0	$ 1,765.7	$ 3,431.1	$ 6,308.6
Cost of sales	464.6	645.7	1,464.3	2,102.8
Gross profit	561.4	1,120.0	1,966.8	4,205.8
Research and development	246.2	266.0	728.6	857.1
Selling, general and administrative	158.2	172.2	465.7	572.4
Amortization of acquired intangible assets	122.6	151.3	368.3	454.2
Special charges and other, net	3.5	1.1	7.6	4.6
Operating expenses	530.5	590.6	1,570.2	1,888.3
Operating income	30.9	529.4	396.6	2,317.5
Interest income	1.7	2.0	6.5	5.1
Interest expense	(68.7)	(49.2)	(189.6)	(143.2)
Loss on settlement of debt	(0.3)	—	(0.3)	(12.2)
Other (loss) income, net	(9.7)	2.1	(6.0)	(1.0)
(Loss) income before income taxes	(46.1)	484.3	207.2	2,166.2
Income tax provision	7.5	65.1	53.1	414.0
Net (loss) income	$ (53.6)	$ 419.2	$ 154.1	$ 1,752.2
Basic net (loss) income per common share	$ (0.10)	$ 0.78	$ 0.29	$ 3.23
Diluted net (loss) income per common share	$ (0.10)	$ 0.77	$ 0.28	$ 3.19
Dividends declared per common share	$ 0.455	$ 0.439	$ 1.361	$ 1.232
Basic common shares outstanding	537.4	540.8	536.9	543.0
Diluted common shares outstanding	537.4	546.5	542.1	549.0

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Net (loss) income	$ (53.6)	$ 419.2	$ 154.1	$ 1,752.2
Components of other comprehensive income (loss):				
Actuarial gains (losses) related to defined benefit pension plans, net of tax effect	4.5	(2.0)	0.2	(0.7)
Other comprehensive income (loss), net of tax effect	4.5	(2.0)	0.2	(0.7)
Comprehensive (loss) income	$ (49.1)	$ 417.2	$ 154.3	$ 1,751.5

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended December 31,	
	2024	2023
Cash flows from operating activities:		
Net income	$ 154.1	$ 1,752.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	563.1	661.3
Deferred income taxes	(125.8)	44.1
Share-based compensation expense related to equity incentive plans	139.7	134.7
Loss on settlement of debt	0.3	12.2
Amortization of debt discount	51.6	18.8
Amortization of debt issuance costs	6.1	5.7
Impairment of intangible assets	—	1.3
Other	(45.5)	(11.7)
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Decrease (increase) in accounts receivable	286.5	(92.8)
(Increase) decrease in inventories	(35.1)	16.2
Decrease in accounts payable and accrued liabilities	(236.6)	(24.0)
Change in other assets and liabilities	(72.7)	43.4
Change in income tax payable	6.5	(98.7)
Net cash provided by operating activities	692.2	2,462.7
Cash flows from investing activities:		
Other investing	2.4	0.4
Proceeds from capital-related government incentives	0.1	1.1
Investments in other assets	(122.5)	(77.4)
Capital expenditures	(111.8)	(245.0)
Net cash used in investing activities	(231.8)	(320.9)
Cash flows from financing activities:		
Proceeds from borrowings on Revolving Credit Facility	—	5,551.0
Repayments of Revolving Credit Facility	—	(5,651.0)
Proceeds from borrowings on 2025 Term Loan Facility	—	750.0
Repayments of 2025 Term Loan Facility	(750.0)	—
Proceeds from issuance of Commercial Paper	10,567.1	3,558.3
Repayments of Commercial Paper	(10,630.9)	(2,914.7)
Proceeds from issuance of senior notes	1,992.2	—
Repayment of senior notes	(1,000.0)	(2,000.0)
Proceeds from issuance of convertible debt	1,250.0	—
Payments on settlement of convertible debt	(668.5)	(132.8)
Deferred financing costs	(18.0)	(1.5)
Purchase of capped call options	(105.0)	—
Proceeds from sale of common stock	45.4	57.7
Tax payments related to shares withheld for vested RSUs	(45.0)	(46.9)
Repurchase of common stock	(96.5)	(594.7)
Payment of cash dividends	(730.9)	(669.0)
Capital lease payments	(1.2)	(1.2)
Other Financing	(2.8)	—
Net cash used in financing activities	(194.1)	(2,094.8)
Net increase in cash and cash equivalents	266.3	47.0
Cash and cash equivalents, at beginning of period	319.7	234.0
Cash and cash equivalents, at end of period	$ 586.0	$ 281.0

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions; unaudited)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury				
	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
Balance at March 31, 2023	577.8	$ 2,413.8	32.3	$ (1,660.2)	$ (4.1)	$ 5,764.1	$ 6,513.6
Net income	—	—	—	—	—	666.4	666.4
Other comprehensive loss	—	—	—	—	(0.3)	—	(0.3)
Proceeds from sales of common stock through employee equity incentive plans	0.9	15.3	—	—	—	—	15.3
RSU withholdings	(0.3)	(15.7)	—	—	—	—	(15.7)
Treasury stock used for new issuances	(0.6)	(14.7)	(0.6)	14.7	—	—	—
Repurchase of common stock	—	—	1.8	(141.2)	—	—	(141.2)
Settlement of convertible debt	—	(43.3)	—	—	—	—	(43.3)
Share-based compensation	—	45.4	—	—	—	—	45.4
Cash dividend	—	—	—	—	—	(208.9)	(208.9)
Balance at June 30, 2023	577.8	2,400.8	33.5	(1,786.7)	(4.4)	6,221.6	6,831.3
Net income	—	—	—	—	—	666.6	666.6
Other comprehensive income	—	—	—	—	1.6	—	1.6
Proceeds from sales of common stock through employee equity incentive plans	1.1	25.3	—	—	—	—	25.3
RSU withholdings	(0.2)	(14.7)	—	—	—	—	(14.7)
Treasury stock used for new issuances	(0.9)	(19.7)	(0.9)	19.7	—	—	—
Repurchase of common stock	—	—	4.2	(342.3)	—	—	(342.3)
Settlement of convertible debt	—	(22.0)	—	—	—	—	(22.0)
Share-based compensation	—	45.4	—	—	—	—	45.4
Cash dividend	—	—	—	—	—	(222.7)	(222.7)
Balance at September 30, 2023	577.8	2,415.1	36.8	(2,109.3)	(2.8)	6,665.5	6,968.5
Net income	—	—	—	—	—	419.2	419.2
Other comprehensive loss	—	—	—	—	(2.0)	—	(2.0)
Proceeds from sales of common stock through employee equity incentive plans	1.0	17.1	—	—	—	—	17.1
RSU withholdings	(0.2)	(16.5)	—	—	—	—	(16.5)
Treasury stock used for new issuances	(0.8)	(15.7)	(0.8)	15.7	—	—	—
Repurchase of common stock	—	—	1.4	(115.0)	—	—	(115.0)
Share-based compensation	—	46.3	—	—	—	—	46.3
Cash dividend	—	—	—	—	—	(237.4)	(237.4)
Balance at December 31, 2023	577.8	$ 2,446.3	37.4	$ (2,208.6)	$ (4.8)	$ 6,847.3	$ 7,080.2
Balance at March 31, 2024	577.8	$ 2,483.4	41.1	$ (2,581.6)	$ (3.5)	$ 6,759.5	$ 6,657.8
Net income	—	—	—	—	—	129.3	129.3
Other comprehensive loss	—	—	—	—	(0.2)	—	(0.2)
Proceeds from sales of common stock through employee equity incentive plans	0.8	13.1	—	—	—	—	13.1
RSU withholdings	(0.2)	(18.9)	—	—	—	—	(18.9)
Treasury stock used for new issuances	(0.6)	(13.0)	(0.6)	13.0	—	—	—
Repurchase of common stock	—	—	0.8	(72.7)	—	—	(72.7)
Purchase of capped call options	—	(105.0)	—	—	—	—	(105.0)
Share-based compensation	—	45.2	—	—	—	—	45.2

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury				
	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
Cash dividend	—	—	—	—	—	(242.6)	(242.6)
Balance at June 30, 2024	577.8	2,404.8	41.3	(2,641.3)	(3.7)	6,646.2	6,406.0
Net income	—	—	—	—	—	78.4	78.4
Other comprehensive loss	—	—	—	—	(4.1)	—	(4.1)
Proceeds from sales of common stock through employee equity incentive plans	0.9	20.5	—	—	—	—	20.5
RSU withholdings	(0.2)	(14.3)	—	—	—	—	(14.3)
Treasury stock used for new issuances	(0.7)	(15.3)	(0.7)	15.3	—	—	—
Repurchase of common stock	—	—	0.2	(17.3)	—	—	(17.3)
Share-based compensation	—	50.4	—	—	—	—	50.4
Cash dividend	—	—	—	—	—	(243.7)	(243.7)
Balance at September 30, 2024	577.8	2,446.1	40.8	(2,643.3)	(7.8)	6,480.9	6,275.9
Net loss	—	—	—	—	—	(53.6)	(53.6)
Other comprehensive income	—	—	—	—	4.5	—	4.5
Proceeds from sales of common stock through employee equity incentive plans	0.9	11.8	—	—	—	—	11.8
RSU withholdings	(0.2)	(11.8)	—	—	—	—	(11.8)
Treasury stock used for new issuances	(0.7)	(13.7)	(0.7)	13.7	—	—	—
Shares issued to settle convertible debt	0.1	—	—	—	—	—	—
Share-based compensation	—	49.3	—	—	—	—	49.3
Cash dividend	—	—	—	—	—	(244.6)	(244.6)
Balance at December 31, 2024	577.9	$ 2,481.7	40.1	$ (2,629.6)	$ (3.3)	$ 6,182.7	$ 6,031.5

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, pursuant to the rules and regulations of 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, 2024. The results of operations for the three and nine months ended December 31, 2024 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2025 or for any other period.

Note 2. Recently Issued Accounting Pronouncements and Other Developments

Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07-*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, and an amount and description of the composition of other segment items to reconcile to segment profit or loss. The amendments in this update also expand the interim segment disclosure requirements. ASU 2023-07 is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted with retrospective application required for all prior periods presented in the financial statements. The Company is currently evaluating the applicable disclosures.

In December 2023, the FASB issued ASU 2023-09-*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which modifies the rules on income tax disclosures to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. The amendments are intended to address investors' requests for income tax disclosures that provide more information to help them better understand an entity's exposure to potential changes in tax laws and the ensuing risks and opportunities and to assess income tax information that affects cash flow forecasts and capital allocation decisions. The guidance also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. ASU 2023-09 is effective for public business entities for annual periods beginning after December 15, 2024 with early adoption permitted. All entities should apply the guidance prospectively but have the option to apply it retrospectively. The Company is continuing to assess the timing of adoption and the potential impacts of ASU 2023-09.

In November 2024, the FASB issued ASU 2024-03-*Income Statement (Subtopic 220-40*): *Disaggregation of Income Statement Expenses* requiring disaggregated disclosures of certain expense captions into specified categories in the notes to the financial statements. ASU 2024-03 is effective for annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted with updates to be applied prospectively with the option for retrospective application. The Company is currently evaluating the applicable disclosures.

SEC Climate Disclosures

In March 2024, the SEC issued final rules requiring registrants to include comprehensive climate-related disclosures in annual reports and registration statements. As adopted, the final rules require large accelerated filers to make their first climate-related disclosures for fiscal years beginning in 2025. However, in April 2024, the SEC issued an order voluntarily staying the effectiveness of the new rules pending the completion of judicial review of certain legal challenges to their validity. The Company is currently evaluating these rules as adopted as well as monitoring the status of the related litigation and the SEC's stay.

Note 3. 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 tables represent net sales and gross profit for each segment for the periods presented (in millions):

	Three Months Ended December 31, 2024		Nine Months Ended December 31, 2024	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$ 995.0	$ 530.4	$ 3,339.1	$ 1,874.8
Technology licensing	31.0	31.0	92.0	92.0
Total	$ 1,026.0	$ 561.4	$ 3,431.1	$ 1,966.8

	Three Months Ended December 31, 2023		Nine Months Ended December 31, 2023	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$ 1,741.5	$ 1,095.8	$ 6,224.0	$ 4,121.2
Technology licensing	24.2	24.2	84.6	84.6
Total	$ 1,765.7	$ 1,120.0	$ 6,308.6	$ 4,205.8

Note 4. Net Sales

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Mixed-signal Microcontrollers	$ 533.2	$ 995.2	$ 1,772.5	$ 3,577.0
Analog	272.7	430.6	895.4	1,687.2
Other	220.1	339.9	763.2	1,044.4
Total net sales	$ 1,026.0	$ 1,765.7	$ 3,431.1	$ 6,308.6

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Distributors	$ 438.7	$ 767.6	$ 1,531.2	$ 3,001.6
Direct customers	556.3	973.9	1,807.9	3,222.4
Licensees	31.0	24.2	92.0	84.6
Total net sales	$ 1,026.0	$ 1,765.7	$ 3,431.1	$ 6,308.6

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

The consideration received from customers is fixed, with the exception of consideration from certain distributors and customers under LTSAs. 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, which are recorded as refund liabilities within accrued liabilities on the Company's condensed consolidated balance sheets.

The Company collects amounts in advance for certain of its contracts with customers. These amounts are deferred until control of the product or service is transferred to the customer at which time it is recognized as revenue. As of December 31, 2024, the Company had approximately $806.1 million of deferred revenue, of which $238.0 million is included within accrued liabilities and the remaining $568.1 million is included within other long-term liabilities on the Company's condensed consolidated balance sheet. As of March 31, 2024, the Company had approximately $933.0 million of deferred revenue, of which $261.8 million is included within accrued liabilities and the remaining $671.2 million is included within other long-term liabilities on the Company's condensed consolidated balance sheets. Deferred revenue represents amounts that have been invoiced in advance which are expected to be recognized as revenue in future periods. Approximately $168.2 million of deferred revenue recorded on the Company's consolidated balance sheets as of March 31, 2024, was recognized as revenue during the nine months ended December 31, 2024. Approximately $82.5 million of deferred revenue recorded on the Company's consolidated balance sheets as of March 31, 2023, was recognized as revenue during the nine months ended December 31, 2023.

Of the $806.1 million of deferred revenue as of December 31, 2024, $715.8 million is cash collected from customers under LTSAs, of which $165.1 million is included within accrued liabilities and $550.7 million is included within other long-term liabilities. Under these LTSAs, the Company receives an upfront deposit from the customer in exchange for assured supply over the contract period, which typically ranges from three years to five years. If the customer does not meet the minimum purchase commitments defined in the contract, the Company may retain all, or portions of, the deposit as revenue. If the Company fails to assure supply as defined in the contract, the deposit, or portions of it, will be returned to the customer. The transaction price for the remaining performance obligations for the LTSAs were approximately $2.90 billion as of December 31, 2024, of which approximately 26% is expected to be recognized as net sales during the next 12 months. The amount and timing of such net sales is uncertain because it depends on the satisfaction of commitments made in the LTSAs, which may be affected by the timing and amount of orders placed by customers, contract modifications, variable consideration, sales channels, and manufacturing and supply chain conditions. Accordingly, the amount may not be indicative of net sales in future periods. The remaining $90.3 million of deferred revenue as of December 31, 2024 is related to other cash payments received from customers in advance of the Company’s performance obligations being satisfied. Most of the $90.3 million will be recognized as net sales within the next 12 months. The amount of other firmly committed orders with performance obligations in excess of 12 months at the time of order is immaterial.

Note 5. Net (Loss) Income Per Common Share

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Net (loss) income	$ (53.6)	$ 419.2	$ 154.1	$ 1,752.2
Basic weighted average common shares outstanding	537.4	540.8	536.9	543.0
Dilutive effect of RSUs	—	4.9	4.4	5.0
Dilutive effect of 2015 Senior Convertible Debt	—	0.2	0.2	0.2
Dilutive effect of 2017 Senior Convertible Debt	—	0.6	0.6	0.8
Diluted weighted average common shares outstanding	537.4	546.5	542.1	549.0
Basic net (loss) income per common share	$ (0.10)	$ 0.78	$ 0.29	$ 3.23
Diluted net (loss) income per common share	$ (0.10)	$ 0.77	$ 0.28	$ 3.19

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

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed vesting of outstanding RSUs. For the three months ended December 31, 2024, the calculation of diluted net loss per common share excluded 3.6 million common shares from employee equity incentive plans and, 0.1 million and 0.5 million common shares issuable upon the exchange of the Company's 2015 Senior Convertible Debt and the 2017 Senior Convertible Debt, respectively, as the related impact would have been anti-dilutive as the Company generated a net loss. Prior to conversion of its Convertible Debt, 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 if-converted method. The Company's Convertible Debt has no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the Company is required to settle the principal amount of the Convertible Debt in cash upon conversion.

The following is the weighted average conversion price per share used in calculating the dilutive effect (see Note 6 for details on the Convertible Debt):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
2015 Senior Convertible Debt	$ 28.30	$ 28.95	$ 28.49	$ 29.10
2017 Senior Convertible Debt	$ 44.14	$ 45.14	$ 44.42	$ 45.38
2020 Senior Convertible Debt[1]	$ —	$ 91.78	$ 91.08	$ 92.05
2024 Senior Convertible Debt	$ 121.83	$ —	$ 121.84	$ —
2017 Junior Convertible Debt[2]	$ —	$ —	$ —	$ 44.81

[1] The weighted average conversion price per share for the 2020 Senior Convertible Debt was prior to the settlement of the outstanding principal amount in November 2024.

[2] The weighted average conversion price per share for the 2017 Junior Convertible Debt was prior to the settlement of the outstanding principal amount in May 2023.

Note 6. Debt

Debt obligations included in the condensed consolidated balance sheets consisted of the following (in millions)[1]:

	Coupon Interest Rate	Effective Interest Rate	December 31, 2024	March 31, 2024
2025 Term Loan Facility			$ —	$ 750.0
Commercial Paper			1,296.0	1,359.0
0.983% 2024 Notes	0.983%	1.1%	—	1,000.0
4.250% 2025 Notes	4.250%	4.6%	1,200.0	1,200.0
4.900% 2028 Notes	4.900%	5.1%	1,000.0	—
5.050% 2029 Notes	5.050%	5.2%	1,000.0	1,000.0
5.050% 2030 Notes	5.050%	5.2%	1,000.0	—
Total Senior Indebtedness			5,496.0	5,309.0
Senior Subordinated Convertible Debt - Principal Outstanding				
2015 Senior Convertible Debt	1.625%	1.8%	3.7	6.7
2017 Senior Convertible Debt	1.625%	1.8%	38.0	38.0
2020 Senior Convertible Debt	0.125%	0.5%	—	665.5
2024 Senior Convertible Debt	0.750%	1.0%	1,250.0	—
Total Convertible Debt			1,291.7	710.2
Gross long-term debt including current maturities			6,787.7	6,019.2
Less: Debt discount[2]			(17.6)	(13.9)
Less: Debt issuance costs[3]			(20.6)	(5.5)
Net long-term debt including current maturities			6,749.5	5,999.8
Less: Current maturities[4]			—	(999.4)
Net long-term debt			$ 6,749.5	$ 5,000.4

[(1)] The Company had no outstanding borrowings under the Revolving Credit Facility at December 31, 2024 and at March 31, 2024. In November 2024, the amended and restated Credit Agreement, dated as of December 16, 2021 (as amended by the first incremental term loan amendment, dated as of August 31, 2023), was amended to amend the maximum total leverage ratio financial covenant for the quarterly periods ending on December 31, 2024 through December 31, 2025 to 4.75 to 1.00.

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

	December 31, 2024	March 31, 2024
Commercial Paper	$ (3.2)	$ (3.9)
0.983% 2024 Notes	—	(0.4)
4.250% 2025 Notes	(2.1)	(4.4)
4.900% 2028 Notes	(3.5)	—
5.050% 2029 Notes	(4.5)	(5.2)
5.050% 2030 Notes	(4.3)	—
Total unamortized discount	$ (17.6)	$ (13.9)

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

	December 31, 2024	March 31, 2024
2025 Term Loan Facility	$ —	$ (0.7)
0.983% 2024 Notes	—	(0.2)
4.250% 2025 Notes	(0.3)	(0.6)
4.900% 2028 Notes	(1.8)	—
5.050% 2029 Notes	(1.9)	(2.2)
5.050% 2030 Notes	(1.8)	—
2017 Senior Convertible Debt	(0.1)	(0.1)
2020 Senior Convertible Debt	—	(1.7)
2024 Senior Convertible Debt	(14.7)	—
Total debt issuance costs	$ (20.6)	$ (5.5)

[(4)] As of December 31, 2024, the outstanding Commercial Paper which matures within the three months ending March 31, 2025, and the 4.250% 2025 Notes which matures on September 1, 2025, were excluded from current maturities as the Company has the intent and ability to utilize proceeds from its Revolving Credit Facility to refinance such notes on a long-term basis. As of December 31, 2024, the 2015 Senior Convertible Debt which matures on February 15, 2025, and the 2017 Senior Convertible Debt which matures on February 15, 2027, were convertible and are excluded from current maturities as the Company has the intent and ability to utilize proceeds from its Revolving Credit Facility to settle the principal portion of its Convertible Debt upon conversion. As of March 31, 2024, current maturities consisted of the 0.983% 2024 Notes. As of March 31, 2024, the outstanding Commercial Paper which matured within the three months ended June 30, 2024, and the 2020 Senior Convertible Debt were excluded from current maturities as the Company had the intent and ability to utilize proceeds from its Revolving Credit Facility to refinance such notes on a long-term basis. As of March 31, 2024, the 2015 Senior Convertible Debt and the 2017 Senior Convertible Debt were convertible and were excluded from current maturities as the Company had the intent and ability to utilize proceeds from its Revolving Credit Facility to settle the principal portion of its Convertible Debt upon conversion.

Expected maturities relating to the Company’s debt obligations based on the contractual maturity dates as of December 31, 2024, are as follows (in millions):

Fiscal year ending March 31,	Amount
2025	$ 1,299.7
2026	1,200.0
2027	38.0
2028	1,000.0
2029	1,000.0
Thereafter	2,250.0
Total	$ 6,787.7

Ranking of Convertible Debt - Each series of Convertible Debt is an unsecured obligation which is subordinated in right of payment to the amounts outstanding under the Company's Senior Indebtedness. The Senior Subordinated Convertible Debt is subordinated to the Senior Indebtedness; ranks senior to the Company's indebtedness that is expressly subordinated in right of payment to it; 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 and unsecured unsubordinated indebtedness to the extent of the value of the assets securing such indebtedness; and is structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Summary of Conversion Features - On April 1, 2022, the Company irrevocably elected cash settlement for the principal amount of its Convertible Debt. Each series of Convertible Debt is convertible, subject to certain conditions, into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at specified conversion rates (see table below), adjusted for certain events including the declaration of cash dividends. Except during the three-month period immediately preceding the maturity date of the applicable series of Convertible Debt, each series of Convertible Debt is convertible only upon the occurrence of (i) such time as the closing price of the Company's common stock exceeds the applicable conversion price (see table below) by 130% for 20 trading 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, (ii) during the 5 business day period after any 10 consecutive trading day period, or the measurement period, in which the trading price per $1,000 principal amount of notes of a given series for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day, or (iii) upon the occurrence of certain corporate events specified in the indenture of such series of Convertible Debt. In addition, for each series, with the exception of the 2024 Senior Convertible Debt, if at the time of conversion the applicable price of the Company's common stock exceeds the applicable conversion price at such time, the applicable conversion rate will be increased by up to an additional maximum incremental shares rate, as determined pursuant to a formula specified in the indenture for the applicable series of Convertible Debt, and as adjusted for cash dividends paid since the issuance of such series of Convertible Debt. However, in no event will the applicable conversion rate exceed the applicable maximum conversion rate specified in the indenture for the applicable series of Convertible Debt (see table below).

The following table sets forth the applicable conversion rates adjusted for dividends declared since issuance of such series of Convertible Debt and the applicable incremental share factors and maximum conversion rates as adjusted for dividends paid since the applicable issuance date:

	Dividend adjusted rates as of December 31, 2024			
	Conversion Rate	Approximate Conversion Price	Incremental Share Factor	Maximum Conversion Rate
2015 Senior Convertible Debt[(1)]	35.3305	$ 28.30	17.6671	49.4618
2017 Senior Convertible Debt[(1)]	22.6555	$ 44.14	11.3286	32.2841
2024 Senior Convertible Debt[(1)]	8.2082	$ 121.83	—	10.4654

[(1)] As of December 31, 2024, the 2024 Senior Convertible Debt was not convertible. The 2015 Senior Convertible Debt became convertible on November 15, 2024. As of December 31, 2024, the holders of the 2017 Senior Convertible Debt have the right to convert their notes between January 1, 2025 and March 31, 2025 because the Company's common stock price has exceeded the applicable conversion price for such series by 130% for the specified period of time during the quarter ended December 31, 2024.

With the exception of the 2024 Senior Convertible Debt, which may be redeemed by the Company on or after June 5, 2027, the Company may not redeem any series of Convertible Debt prior to the relevant maturity date and no sinking fund is provided for any series of Convertible Debt. Under the terms of the applicable indenture, the Company may repurchase any series of Convertible Debt in the open market or through privately negotiated exchange offers. Upon the occurrence of a fundamental change, as defined in the applicable indenture of such series of Convertible Debt, holders of such series may require the Company to purchase all or a portion of their Convertible Debt for cash at a price equal to 100% of the principal amount plus any accrued and unpaid interest.

Interest expense consists of the following (in millions):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Debt issuance cost amortization	$ 0.8	$ 1.0	$ 2.6	$ 3.6
Debt discount amortization	23.5	14.0	51.6	18.8
Interest expense	39.5	31.9	121.2	113.8
Total interest expense on Senior Indebtedness	63.8	46.9	175.4	136.2
Debt issuance cost amortization	1.0	0.7	3.5	2.1
Coupon interest expense	2.6	0.4	6.4	1.3
Total interest expense on Convertible Debt	3.6	1.1	9.9	3.4
Other interest expense	1.3	1.2	4.3	3.6
Total interest expense	$ 68.7	$ 49.2	$ 189.6	$ 143.2

The Company's debt settlement transactions consist of the following (in millions):

	Principal Amount Settled	Total Cash Consideration	Net Loss on Inducements and Settlements
December 2024[(1)]			
2025 Term Loan Facility	$ 750.0	$ 750.0	$ 0.3
November 2024[(2)]			
2020 Senior Convertible Debt	$ 665.5	$ 665.5	$ —
September 2024[(2)]			
0.983% 2024 Notes	$ 1,000.0	$ 1,000.0	$ —

(1) The Company used proceeds from the issuance of 4.900% 2028 Notes and 5.050% 2030 Notes to finance such settlement.
(2) The Company used proceeds from the issuance of Commercial Paper to finance such settlement.

Convertible Debt

In May 2024, the Company issued $1.25 billion aggregate principal amount of 2024 Senior Convertible Debt and incurred issuance costs of $16.5 million. Interest on the 2024 Senior Convertible Debt is payable semi-annually in arrears on June 1 and December 1. The 2024 Senior Convertible Debt will mature on June 1, 2030 unless redeemed, repurchased or converted.

In connection with the issuance of the 2024 Senior Convertible Debt, the Company entered into capped call option transactions with several financial institutions at a cost of $105.0 million. The capped call options cover, subject to anti-dilution adjustments, the number of shares of the Company's common stock initially underlying the 2024 Senior Convertible Debt. Upon conversion of the 2024 Senior Convertible Debt, the Company may exercise the capped call options subject to a cap price of $167.23 per share, subject to certain adjustments under the terms of the capped call options, which are generally expected to reduce the potential dilution to the Company's common stock upon conversion of the 2024 Senior Convertible Debt and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2024 Senior Convertible Debt. Upon conversion of the 2024 Senior Convertible Debt, there will be no economic dilution from the 2024 Senior Convertible Debt until the average market price of the Company's common stock exceeds the cap price of $167.23 per share as the exercise of the capped call options will offset any dilution from the 2024 Senior Convertible Debt from the conversion price up to the cap price. As these transactions meet certain accounting criteria, the capped call options are recorded as a reduction of stockholders' equity and are not accounted for as derivatives.

Commercial Paper

In September 2023, the Company established a Commercial Paper program under which the Company may issue short-term unsecured promissory notes up to a maximum principal amount outstanding at any time of $2.75 billion with a maturity of up to 397 days from the date of issue. The Company's obligations with respect to the payment of the Commercial Paper are guaranteed by certain of its subsidiaries. The Commercial Paper will be sold at a discount from par or alternatively, will be sold at par and bear interest rates that will vary based on market conditions and the time of issuance. The Company's intention is to reduce the amounts that would otherwise be available to borrow under the Company's Revolving Credit Facility by the outstanding amount of Commercial Paper. As of December 31, 2024, the Company had $1.30 billion of principal amount of Commercial Paper outstanding. The weighted-average interest rate of the Company's outstanding Commercial Paper was 4.76% as of December 31, 2024.

4.900% 2028 Notes and 5.050% 2030 Notes

In December 2024, the Company issued $1.00 billion aggregate principal amount of 4.900% 2028 Notes and $1.00 billion aggregate principal amount of 5.050% 2030 Notes in a public offering. In connection with the issuance of the 4.900% 2028 Notes and 5.050% 2030 Notes, the Company incurred issuance costs of approximately $1.8 million for each series of notes and recorded a debt discount of $3.6 million and $4.3 million, respectively, which includes fees deducted from the proceeds, which will both be amortized using the effective interest method over the term of the debts.

The Company may, at its option, redeem some or all of the 4.900% 2028 Notes at any time, at a redemption price equal to the greater of (a) the sum of the present values of the remaining scheduled payments of principal and interest discounted as defined in the indenture governing the terms of the 4.900% 2028 Notes (the 4.900% 2028 Notes Indenture), plus 15 basis points less interest accrued to the date of redemption, and (b) 100% of the principal amount of the 4.900% 2028 Notes to be redeemed, plus, in either case, accrued and unpaid interest to, but excluding, the redemption date.

Prior to January 15, 2030 (Par Call Date) the Company may, at its option, redeem some or all of the 5.050% 2030 Notes at a redemption price equal to the greater of (a) the sum of the present values of the remaining scheduled payments of principal and interest discounted as defined in the indenture governing the terms of the 5.050% 2030 Notes (the 5.050% 2030 Notes Indenture), plus 15 basis points less interest accrued to the date of redemption, and (b) 100% of the principal amount of the 5.050% 2030 Notes to be redeemed, plus, in either case, accrued and unpaid interest, but excluding, the redemption date. On or after the Par Call Date, the Company may redeem the 5.050% 2030 Notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount of the 5.050% 2030 Notes being redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date.

If the Company experiences a specific change of control triggering event with respect to the 4.900% 2028 Notes or the 5.050% 2030 Notes, as applicable, the Company must offer to repurchase such 4.900% 2028 Notes or 5.050% 2030 Notes at a price equal to 101% of the principal amount of the Notes repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The 4.900% 2028 Notes Indenture and the 5.050% 2030 Notes Indenture contain certain customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, create or incur certain liens, enter into sale and leaseback transactions, and consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets. These covenants are subject to a number of limitations and exceptions set forth in the 4.900% 2028 Notes Indenture and the 5.050% 2030 Notes Indenture.

The 4.900% 2028 Notes and 5.050% 2030 Notes are guaranteed by certain of the Company's subsidiaries that have also guaranteed the obligation under the Credit Agreement.

Note 7. Fair Value of Financial Instruments

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

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

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

The carrying amount of cash equivalents, which include money market funds, approximates fair value because their maturity is less than three months. The Company held $300.0 million of cash and cash equivalents in the form of money-market funds as of December 31, 2024. The amount of cash and cash equivalents held by the Company in the form of money-market funds as of March 31, 2024 was not material. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

The fair value of the Company's 2025 Term Loan Facility, and the Commercial Paper, is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's Commercial Paper at December 31, 2024 approximated the carrying value excluding debt discounts and debt issuance costs and are considered Level 2 in the fair value hierarchy. The Company measures the fair value of its Convertible Debt and Senior Notes for disclosure purposes. These fair values are based on observable market prices for this debt, which is traded in less active markets and are therefore classified as a Level 2 fair value measurement.

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

	December 31, 2024		March 31, 2024	
	Carrying Amount[1]	Fair Value	Carrying Amount[1]	Fair Value
2025 Term Loan Facility	$ —	$ —	$ 749.3	$ 750.0
Commercial Paper	1,292.8	1,296.0	1,355.1	1,359.0
0.983% 2024 Notes	—	—	999.4	979.6
4.250% 2025 Notes	1,197.6	1,195.0	1,195.0	1,181.8
4.900% 2028 Notes	994.7	997.0	—	—
5.050% 2029 Notes	993.6	997.0	992.6	1,000.6
5.050% 2030 Notes	993.9	992.4	—	—
2015 Senior Convertible Debt	3.7	9.1	6.7	25.6
2017 Senior Convertible Debt	37.9	61.2	37.9	101.3
2020 Senior Convertible Debt	—	—	663.8	708.8
2024 Senior Convertible Debt	1,235.3	1,150.8	—	—
Total	$ 6,749.5	$ 6,698.5	$ 5,999.8	$ 6,106.7

[1] The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 6 for further information).

Note 8. Intangible Assets and Goodwill

Net amounts excluding fully amortized intangible assets, consist of the following (in millions):

	December 31, 2024		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$ 7,227.0	$ (4,941.0)	$ 2,286.0
Customer-related	199.5	(149.8)	49.7
In-process research and development	50.8	—	50.8
Software licenses	254.0	(122.3)	131.7
Total	$ 7,731.3	$ (5,213.1)	$ 2,518.2

	March 31, 2024		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$ 7,221.3	$ (4,590.9)	$ 2,630.4
Customer-related	196.7	(140.8)	55.9
Software licenses	230.7	(135.2)	95.5
Total	$ 7,648.7	$ (4,866.9)	$ 2,781.8

During the nine months ended December 31, 2024, due to acquisitions, the Company acquired $50.8 million of in-process research and development, $2.8 million of customer-related intangible assets, and $1.1 million of software licenses intangible assets. The following is an expected amortization schedule for the intangible assets for the remainder of fiscal 2025 through fiscal 2029, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending March 31,	Amortization Expense
2025	$ 145.8
2026	$ 519.0
2027	$ 423.7
2028	$ 314.3
2029	$ 240.6

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Amortization expense charged to cost of sales	$ 6.1	$ 3.0	$ 13.7	$ 9.0
Amortization expense charged to operating expense	140.3	169.3	424.8	507.7
Total amortization expense	$ 146.4	$ 172.3	$ 438.5	$ 516.7

Goodwill activity by segment was as follows (in millions):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2024	$ 6,656.2	$ 19.2
Additions due to acquisitions	9.4	—
Balance at December 31, 2024	$ 6,665.6	$ 19.2

At March 31, 2024, the Company applied a qualitative goodwill impairment test to its two reporting units, and concluded that goodwill was not impaired. Through December 31, 2024, the Company has never recorded a goodwill impairment charge.

Note 9. Other Financial Statement Details

Accounts Receivable

Accounts receivable consists of the following (in millions):

	December 31, 2024	March 31, 2024
Trade accounts receivable	$ 853.3	$ 1,141.7
Other	10.4	10.1
Total accounts receivable, gross	863.7	1,151.8
Less: allowance for expected credit losses	6.5	8.1
Total accounts receivable, net	$ 857.2	$ 1,143.7

The Company had a program to sell certain of its trade accounts receivable on a non-recourse basis to a third-party financial institution pursuant to a factoring arrangement. The Company accounted for these transactions as sales of receivables and presents cash proceeds as cash provided by operating activities in the consolidated statements of cash flows. Total trade accounts receivable sold under the factoring arrangement were $64.9 million in the nine months ended December 31, 2023. The Company terminated this program in September 2024.

Inventories

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

	December 31, 2024	March 31, 2024
Raw materials	$ 182.6	$ 184.0
Work in process	874.4	797.5
Finished goods	299.3	334.5
Total inventories	$ 1,356.3	$ 1,316.0

Property, Plant and Equipment

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

	December 31, 2024	March 31, 2024
Land	$ 89.3	$ 89.3
Building and building improvements	819.2	796.3
Machinery and equipment	2,787.6	2,778.1
Projects in process	382.3	349.6
Total property, plant and equipment, gross	4,078.4	4,013.3
Less: accumulated depreciation and amortization	2,926.3	2,818.7
Total property, plant and equipment, net	$ 1,152.1	$ 1,194.6

Depreciation expense attributed to property, plant and equipment was $40.4 million and $124.6 million for the three and nine months ended December 31, 2024, respectively, compared to $47.1 million and $144.6 million for the three and nine months ended December 31, 2023, respectively.

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount of such assets may not be recoverable. For each of the three and nine months ended December 31, 2024 and 2023, the Company's evaluation of its property, plant and equipment did not result in any material impairments.

Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	December 31, 2024	March 31, 2024
Accrued compensation and benefits	$ 105.6	$ 117.8
Income taxes payable	145.5	90.8
Deferred revenue	238.0	261.8
Sales related reserves	379.3	580.6
Current portion of lease liabilities	34.5	32.6
Accrued expenses and other liabilities	231.5	223.4
Total accrued liabilities	$ 1,134.4	$ 1,307.0

Note 10. Commitments and Contingencies

Purchase Commitments

The Company's purchase commitments primarily consist of agreements for the purchase of goods and services including wafer purchase obligations with the Company's wafer foundries, and manufacturing supply capacity reservation commitments.

Total purchase commitments as of December 31, 2024, are as follows (in millions):

Fiscal Year Ending March 31,	Purchase Commitments
2025	$ 176.0
2026	177.0
2027	195.6
2028	185.3
2029	163.0
Thereafter	221.0
Total	$ 1,117.9

Indemnification Contingencies

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately $193.0 million. There are some licensing agreements in place that do not specify indemnification limits. As of December 31, 2024, the Company had not recorded any liabilities related to these indemnification obligations and the Company believes that any amounts that it may be required to pay under these agreements in the future will not have a material adverse effect on its financial position, cash flows or results of operations.

Warranty Costs and Product Liabilities

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

Legal Matters

In the ordinary course of the Company's business, it is exposed to various legal actions as a result of contracts, product liability, customer claims, pricing or royalty disputes with customers and licensees, governmental investigations and other matters. The Company is involved in a limited number of these legal actions, both as plaintiff and defendant, with respect to the foregoing types of matters. Consequently, the Company could incur uninsured liability in any of these legal 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 (other than certain tax matters in the U.S. and Malaysia as described in Note 11 below) will not have a material adverse effect on its financial position, cash flows or results of operations. Litigation, governmental investigations and disputes relating to the semiconductor industry are not uncommon, and the Company is, from time to time, subject to such litigation, governmental investigations and disputes. As a result, no assurances can be given with respect to the extent or outcome of any such litigation, governmental investigations or disputes in the future.

The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, the Company accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, the Company records an accrual for the amount within the range that constitutes its best estimate. If the Company can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, the Company uses the amount that is the low end of such range. As of December 31, 2024, the Company's estimate of the aggregate potential liability for legal matters that is possible but not probable is approximately $25.0 million in excess of amounts accrued.

Note 11. Income Taxes

The Company accounts for income taxes in accordance with ASC 740. The provision for income taxes is attributable to U.S. federal, state, and foreign income taxes. The Company’s effective tax rate for the interim period ended December 31, 2024 is 25.62% and is based on an estimated annual effective tax rate including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. A comparison of the Company’s effective tax rates for the nine months ended December 31, 2024 and December 31, 2023 is not meaningful due to changes in the amount of pre-tax income earned, changes in the mix of jurisdictions in which income is earned, and the impact of discrete items relative to the amount of income earned.

The Company's effective tax rate is different than the statutory rates in the U.S. due to foreign income taxed at different rates than the U.S., changes in uncertain tax benefit positions, changes to valuation allowances, generation of tax credits, and the impact of Global Intangible Low Tax Income (GILTI) in the U.S. In addition, the Company has numerous tax holidays it receives related to its Thailand manufacturing operations based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future, however, the Company actively seeks to obtain new tax holidays. The material components of foreign income taxed at a rate lower than the U.S. are earnings accrued in Thailand, Malta, and Ireland.

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

In September 2021, the Company received a Statutory Notice of Deficiency (2007 to 2012 Notice) from the United States Internal Revenue Service (IRS) for fiscal 2007 through fiscal 2012. The disputed amounts largely relate to transfer pricing matters. In December 2021, the Company filed a petition in the U.S. Tax Court challenging the 2007 to 2012 Notice.

In September 2023, the Company received a Revenue Agent Report (RAR) from the IRS for fiscal 2013 and fiscal 2016. In October 2023, the Company received a Statutory Notice of Deficiency (2014 to 2015 Notice) from the IRS for fiscal 2014 and fiscal 2015. The disputed amounts for fiscal 2013 to fiscal 2016 largely relate to transfer pricing matters. In December 2023, the Company filed a petition in the U.S. Tax Court challenging the 2014 to 2015 Notice.

In May 2023, the Company received a proposed income adjustment from the Malaysian Inland Revenue Board (IRB) for fiscal 2020. In December 2023, the Company received a Notice of Assessment from the IRB asserting the same proposed income adjustment. If the adjustment is upheld by the highest court that has jurisdiction over this matter in Malaysia, it could result in income taxes and penalties up to $410.0 million. The disputed amounts largely relate to the characterization of certain assets. Depending on the outcome of the IRB audit, the Company may need to adjudicate this matter in Malaysia, and if the Company does, the Company may be required to pay the assessment and then, upon a series of favorable court rulings, request a refund of the amount. The timing of adjudicating this matter is uncertain but could occur in the next 12 months. The Company firmly believes that the assessment is without merit and plans to pursue all available administrative and judicial remedies necessary to resolve this matter. The Company intends to vigorously defend its position and the Company is confident in its ability to prevail on the merits.

The Company regularly assesses the likelihood of adverse outcomes resulting from examinations such as these to determine the adequacy of the Company's tax reserves. The ultimate outcome of disputes of this nature is uncertain, and if the IRS and IRB were to prevail on their assertions, the assessed tax, penalties, and deficiency interest could have a material adverse impact on the Company's financial position, results of operations or cash flows.

Note 12. Share-Based Compensation

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Cost of sales[1]	$ 7.4	$ 6.0	$ 18.3	$ 20.2
Research and development	28.8	24.4	79.0	71.0
Selling, general and administrative	13.2	14.4	42.4	43.5
Pre-tax effect of share-based compensation	49.4	44.8	139.7	134.7
Income tax benefit	10.4	9.4	29.3	28.4
Net income effect of share-based compensation	$ 39.0	$ 35.4	$ 110.4	$ 106.3

[1] During the three and nine months ended December 31, 2024, $3.6 million and $13.6 million, respectively, of share-based compensation expense was capitalized to inventory and $7.4 million and $18.3 million, respectively, of previously capitalized share-based compensation expense in inventory was sold. During the three and nine months ended December 31, 2023, $4.7 million and $14.6 million, respectively, of share-based compensation expense was capitalized to inventory and $6.0 million and $20.2 million, respectively, of previously capitalized share-based compensation expense in inventory was sold.

Note 13. Stock Repurchase Activity

In November 2021, the Company's Board of Directors approved a stock repurchase program to repurchase up to $4.00 billion of the Company's common stock in the open market or in privately negotiated transactions. There is no expiration date associated with the repurchase program. There were no repurchases of common stock during the three months ended December 31, 2024. During the nine months ended December 31, 2024, the Company purchased approximately 1.0 million shares of its common stock for a total cost of $90.0 million, including the 1% excise tax on stock repurchases enacted by the Inflation Reduction Act of 2022 (Inflation Reduction Act). As of December 31, 2024, approximately $1.56 billion remained available for repurchases under the program. Shares repurchased are recorded as treasury shares and are used to fund share issuance requirements under the Company's equity incentive plans. As of December 31, 2024, the Company had approximately 40.1 million treasury shares.

Note 14. Accumulated Other Comprehensive Loss

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

	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2024	$ 11.6	$ (15.1)	$ (3.5)
Net other comprehensive income	0.2	—	0.2
Balance at December 31, 2024	$ 11.8	$ (15.1)	$ (3.3)

Note 15. Dividends

A quarterly cash dividend of $0.455 per share was paid on December 6, 2024 in the aggregate amount of $244.6 million. A quarterly cash dividend of $0.455 per share was declared on February 6, 2025 and will be paid on March 7, 2025 to stockholders of record as of February 24, 2025. The Company expects the March 2025 payment of its quarterly cash dividend to be approximately $244.9 million.

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

Note Regarding Forward-looking Statements

This report, including "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II - Item 1A. Risk Factors" contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "can," "continue," "could," "expect," "future," "intend," "plan," 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 39 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:

- Our expectation that we will experience period-to-period fluctuations in operating results, gross margins, product mix and average gross profit per unit;
- 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 amount of, and changes in, demand for our products and those of our customers;
- The impact of national security protections, trade restrictions and changes in tariffs, including those impacting China;
- Our intent to vigorously defend our legal positions and our expectations of the impact of litigation on our operations;
- The future impact on our business in response to public health concerns;
- Our goal to continue to be more efficient with our selling, general and administrative expenses;
- Our belief that customers recognize our products and brand name and our use of distributors as an effective supply channel;
- Our belief that familiarity with and adoption of development tools from us and from our third-party development tool partners will be an important factor in the future selection of our embedded control products;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;
- The possibility of future pricing fluctuations in our analog product line;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels;
- Our ability to maintain manufacturing yields;
- The maintenance of our competitive position based on our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- Our plans to continue to transition certain outsourced assembly and test capacity to our internal facilities;
- Our expectations regarding investments in equipment and facilities and the timeline of expansions of our manufacturing capacity;
- The continued development of the embedded control market based on our strong technical service presence;
- Our anticipated level of capital expenditures;
- The possibility that loss of, or disruption in the operations of, one or more of our distributors could reduce our future net sales and/or increase our inventory returns;
- Our intent, including length, timing, planned closure days, to reduce production levels at global fabrication facilities, or closure of facilities completely and its impact on inventory levels and estimated cash savings;
- Our expectations regarding LTSAs and the realization of deferred revenue;
- The continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- Our belief that the capital expenditures to be incurred over the next 12 months will provide sufficient manufacturing capacity to support the growth of our production capabilities for our new products and technologies and to bring in-house more of the production requirements that are currently outsourced;
- Our belief that our IT system compromise will not have a material adverse effect on our business or result in any material damage to us;

- Our expectation that we will continue to be the target of cyber-attacks, computer viruses, unauthorized access and other attempts to breach or otherwise compromise the security of our IT systems and data;
- Our plans to modify and enhance our cybersecurity risk management processes and strategy;
- The impact of the resolution of legal actions on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The amounts and timing, and our plans and expectations relating to the U.S. Statutory Notice of Deficiencies and proposed income adjustment from the Malaysian Inland Revenue Board;
- Our expectation regarding the treatment of our unrecognized tax benefits in the next 12 months;
- Our belief that the expiration of any tax holidays will not have a material impact on our effective tax rate;
- Our expectations regarding our tax expense, cash taxes and effective tax rate;
- Our expectation that the global minimum tax (GMT) will not have a material impact on our fiscal 2025 results;
- Our belief that the estimates used in preparing our condensed consolidated financial statements are reasonable;
- Our actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis;
- Our ability to obtain and maintain patents and intellectual property licenses and minimize the effects of litigation or other disputes or the loss of patent protection;
- The level of risk we are exposed to for product liability claims or indemnification claims;
- The effect of fluctuations in market interest rates on our income and/or cash flows;
- The effect of fluctuations in currency rates;
- The impact of inflation on our business;
- Our ability to increase our borrowings or seek additional equity or debt financing to maintain or expand our facilities, or to fund cash dividends, share repurchases, acquisitions or other corporate activities, and that the timing and amount of such financing requirements will depend on a number of factors;
- Our expected debt obligation maturities and plans to refinance our existing debt;
- Our expectations regarding the amounts and timing of repurchases under our stock repurchase program;
- Our expectation that our reliance on third-party contractors may increase over time as our business grows;
- Our ability to collect accounts receivable;
- The impact of the legislative and policy changes implemented or which may be implemented by the current administration on our business and the trading price of our stock;
- Our belief that our culture, values, and organizational development and training programs will continue to provide an inclusive work environment where our employees are empowered and engaged to deliver the best embedded control solutions;
- Our belief that our continued success is driven by the skills, knowledge, and innovative capabilities of our personnel, a strong technical service presence, and our ability to rapidly commercialize new and enhanced products;
- The potential impact of changes in regulations or in their enforcement, including with respect to the capital expenditures or other costs or expenses;
- The impact of any failure by use to adequately control the storage, use, discharge and disposal of regulated substances;
- Estimates and plans regarding pension liability and payments expected to be made for benefits earned;
- Our expectations regarding the amount, timing, and future applications for investment tax credits under the CHIPS Act;
- Our expectations regarding past or potential future acquisitions, joint development agreements or other strategic relationships and any related benefits; and
- The impact on our business stemming from Russia’s invasion of Ukraine.

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

Introduction

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

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations with a summary of business and macroeconomic developments followed by a summary of our overall business strategy to provide an overview of the goals and overall direction of our business. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three and nine months ended December 31, 2024 compared to the three and nine months ended December 31, 2023, followed by an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in the section titled "Liquidity and Capital Resources."

Business and Macroeconomic Environment

During fiscal 2024, many of our customers felt the adverse effects of slowing economic activity, increasing business uncertainty, persistent inflation and higher interest rates and we received requests to push out or cancel backlog resulting from customer actions to reduce inventory levels. Although we began to see evidence of improvements in our business in the March 2024 quarter which have continued in fiscal 2025, such as a decrease in customer requests to push out or cancel backlog while the number of expedites and shipment pull in requests grew, the overall macroeconomic environment remained weak during the first nine months of fiscal 2025. With our inventory levels being high and having ample capacity in place, on December 2, 2024, we announced our decision to close our Tempe, Arizona wafer fabrication facility that we refer to as Fab 2. Many of the process technologies that run in Fab 2 also run in our Oregon and Colorado factories, which both have ample clean room space for expansion. We expect to be able to close Fab 2 in the September 2025 quarter at which time we expect that it will generate annual cash savings of approximately $90 million. Due to the high inventory of the products which are manufactured in Fab 2, we do not expect to see income statement savings from the closure until the start of the June 2026 quarter based on a first-in first-out basis. We expect that the Fab 2 closure will begin to help us moderate our inventory levels. Consistent with the weak macroeconomic environment, most of our factory expansion activity remains paused and we have reduced our planned capital investments through fiscal 2026.

Strategy

We develop, manufacture and sell smart, connected and secure embedded control solutions used by our customers for a wide variety of applications. Our strategic focus includes general purpose and specialized 8-bit, 16-bit, and 32-bit mixed-signal microcontrollers, microprocessors, analog, FPGA, and memory products. With over 30 years of technology leadership, our broad product portfolio is a Total System Solution (TSS) for our customers that can provide a large portion of the silicon requirements in their applications. TSS is a combination of hardware, software and services which help our customers increase their revenue, reduce their costs and manage their risks compared to other solutions. Our synergistic product portfolio empowers disruptive growth trends, including 5G, data centers, sustainability, Internet of Things (IoT) and edge computing, advanced driver assist systems (ADAS) and autonomous driving, and electric vehicles, in key end markets such as automotive, aerospace and defense, communications, consumer appliances, data centers and computing, and industrial.

Our manufacturing operations include wafer fabrication, wafer probe, assembly and test. In fiscal 2023, we announced our intent to expand our production capacity in the U.S. In the first three quarters of fiscal 2024, we continued our multi-year $800 million capacity expansion plan at Fab 4 in Gresham, Oregon and $880 million plan to expand our SiC and silicon production capacity, including the production of 8-inch wafers at Fab 5 in Colorado Springs, Colorado. In the fourth quarter of fiscal 2024, we paused our expansion efforts until business conditions warrant expansion. In the third quarter of fiscal 2025, we announced the closure of Fab 2 in Tempe, Arizona, which is expected to occur in the second quarter of fiscal 2026. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control, resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and our assembly and test operations, and by employing statistical techniques (statistical process control, designed experiments and wafer level monitoring), we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and assembly and testing profit margin. We outsource a significant portion of our manufacturing requirements to third parties and the amount of our outsourced manufacturing has increased in recent years due to our acquisitions of Microsemi and other companies that outsourced all or substantial portions of their manufacturing.

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 mixed-signal microcontroller and non-volatile memory products. This allows us to more fully leverage our process research and development costs and to deliver new products to market more rapidly. Our engineers utilize advanced computer-aided design tools and software to perform circuit design, simulation and layout, and our in-house photomask and wafer fabrication facilities enable us to rapidly verify design techniques by processing test wafers quickly and efficiently.

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

We market and sell our products worldwide primarily through a network of direct sales personnel and distributors. Our direct sales force focuses on a wide variety of strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and technical support centers in major metropolitan areas in all three geographic markets. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our CEMs, ESEs, and sales managers have technical degrees or backgrounds and have been previously employed in high technology environments. We believe that the technical and business knowledge of our sales force is a key competitive advantage in the sale of our products. The primary mission of our ESE team is to provide technical assistance to customers and to conduct periodic training sessions for our sales team. ESEs also frequently conduct technical seminars and workshops in major cities around the world or through online webcasts. Our licensing division has dedicated sales, technology, design, product, test and reliability personnel that support the requirements of our licensees.

See the risk factor captioned "*Our operating results are impacted by seasonality and wide fluctuations of supply and demand in the industry*" on page 46 for discussion of the impact of seasonality on our business.

Critical Accounting Policies and Estimates

There were no changes to our critical accounting policies and estimates during the first nine months of the fiscal year ending March 31, 2025 compared to our "Critical Accounting Policies and Estimates" as previously described in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2024.

Results of Operations

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	45.3	36.6	42.7	33.3
Gross profit	54.7	63.4	57.3	66.7
Research and development	24.0	15.1	21.2	13.6
Selling, general and administrative	15.4	9.8	13.6	9.1
Amortization of acquired intangible assets	12.0	8.4	10.7	7.2
Special charges and other, net	0.3	0.1	0.2	0.1
Operating income	3.0 %	30.0 %	11.6 %	36.7 %

Net Sales

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

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

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2024	2023	Change	2024	2023	Change
Net sales	$ 1,026.0	$ 1,765.7	(41.9)%	$ 3,431.1	$ 6,308.6	(45.6)%

The decreases in net sales in the three and nine months ended December 31, 2024 compared to the three and nine months ended December 31, 2023 were primarily due to adverse economic conditions, including slowing economic activity, increasing business uncertainty, persistent inflation, high interest rates, and shorter product lead times, which factors resulted in many customers having higher levels of inventory and delaying or reducing orders. Due to the size, complexity and diversity of our customer base, we are not able to quantify any material factor contributing to the changes in net sales. See our "Business and Macroeconomic Environment" discussion above for further information on our business outlook.

Other factors that we believe contributed to changes in our reported net sales for the three and nine months ended December 31, 2024 compared to the three and nine months ended December 31, 2023 and which are drivers of long-term trends in our net sales but which factors we are not able to quantify include:

- economic and competitive conditions in the semiconductor industry;
- our various new product offerings that have increased our served available market;
- customers’ needs for the flexibility offered by our programmable solutions;
- increasing semiconductor content in our customers’ products; and
- geopolitical conditions and trade restrictions.

We sell a large number of products to a large and diverse customer base and there was not any single product or customer that accounted for a material portion of the change in our net sales in the three and nine months ended December 31, 2024 or the three and nine months ended December 31, 2023.

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

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2024	%	2023	%	2024	%	2023	%
Mixed-signal Microcontrollers	$ 533.2	51.9	$ 995.2	56.3	$ 1,772.5	51.7	$ 3,577.0	56.7
Analog	272.7	26.6	430.6	24.4	895.4	26.1	1,687.2	26.7
Other	220.1	21.5	339.9	19.3	763.2	22.2	1,044.4	16.6
Total net sales	$ 1,026.0	100.0	$ 1,765.7	100.0	$ 3,431.1	100.0	$ 6,308.6	100.0

Mixed-signal Microcontrollers

Our mixed-signal microcontroller product line represents the largest component of our total net sales. Mixed-signal microcontrollers and associated application development systems accounted for approximately 51.9% and 51.7% of our net sales for the three and nine months ended December 31, 2024, respectively, compared to approximately 56.3% and 56.7% of our net sales for the three and nine months ended December 31, 2023, respectively.

Net sales of our mixed-signal microcontroller products decreased 46.4% and 50.4% in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023. These decreases in net sales were primarily due to adverse economic conditions, including slowing economic activity, increasing business uncertainty, competitive pressures, persistent inflation, high interest rates, and shorter product lead times, which factors resulted in many customers having higher levels of inventory and delaying or reducing orders.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. However, the overall average selling prices of our mixed-signal microcontroller products have remained relatively stable in recent periods due to the proprietary nature of these products. We have in the past been able to moderate average selling price declines in our mixed-signal microcontroller product lines by introducing new products with more features and higher prices.

Analog

Our analog product line includes analog, interface, mixed-signal and timing products. Our analog product line accounted for approximately 26.6% and 26.1% of our net sales for the three and nine months ended December 31, 2024, respectively, compared to approximately 24.4% and 26.7% of our net sales for the three and nine months ended December 31, 2023, respectively.

Net sales from our analog product line decreased 36.7% and 46.9% in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023, primarily due to adverse economic conditions, including slowing economic activity, increasing business uncertainty, persistent inflation, high interest rates, and shorter product lead times, which factors resulted in many customers having higher levels of inventory and delaying or reducing orders.

We consider a majority of the products in our analog product line to be proprietary in nature, where prices are relatively stable, similar to the pricing stability experienced in our mixed-signal microcontroller products. The non-proprietary portion of our analog product line will experience price fluctuations, driven primarily by the current supply and demand for those products.

Other

Our other product line includes FPGA products, royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, fees for engineering services, memory products, timing systems, manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, and certain products for aerospace applications. Revenue from these services and products accounted for approximately 21.5% and 22.2% of our net sales for the three and nine months ended December 31, 2024, respectively, compared to approximately 19.3% and 16.6% of our net sales for the three and nine months ended December 31, 2023, respectively. In the nine months ended December 31, 2024, we settled an ongoing legal matter with one of our licensees which resulted in the release of an accrual, which increased both our revenue and profits by $13.3 million in such nine month period.

Net sales related to these services and products decreased 35.2% and 26.9% in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023. These decreases in net sales were primarily due to adverse economic conditions, including slowing economic activity, increasing business uncertainty, persistent inflation, high interest rates, and shorter product lead times, which factors resulted in many customers having higher levels of inventory and delaying or reducing orders. Net sales of our other product line can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our FPGA products, licenses, engineering services, memory products, timing systems, and manufacturing services (wafer foundry and assembly and test subcontracting).

Distribution

Distributors accounted for approximately 43% and 45% of our net sales in the three and nine months ended December 31, 2024, respectively, and approximately 44% and 48% of our net sales in the three and nine months ended December 31, 2023, respectively. With the exception of Arrow Electronics, our largest distributor, which accounted for 10% and 12% of our net sales in the nine months ended December 31, 2024 and in the nine months ended December 31, 2023, respectively, no other distributor or direct customer accounted for more than 10% of our net sales in the nine months ended December 31, 2024 or in the nine months ended December 31, 2023. 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 and 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 December 31, 2024, our distributors maintained 37 days of inventory of our products compared to 41 days at March 31, 2024. Over the past ten fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 17 days and 43 days. Inventory holding patterns at our distributors have had a material adverse impact on our net sales in recent periods. Due to the relatively high level of inventory days, we have accommodated efforts by our distributors to manage their inventory levels.

Sales by Geography

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

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2024	%	2023	%	2024	%	2023	%
Americas	$ 297.4	29.0	$ 510.2	28.9	$ 1,041.8	30.4	$ 1,808.2	28.7
Europe	183.9	17.9	414.5	23.5	668.6	19.5	1,531.0	24.3
Asia	544.7	53.1	841.0	47.6	1,720.7	50.1	2,969.4	47.0
Total net sales	$ 1,026.0	100.0	$ 1,765.7	100.0	$ 3,431.1	100.0	$ 6,308.6	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 76% and 75% of our total net sales in the three and nine months ended December 31, 2024, respectively, compared to approximately 75% of our total net sales in each of the three and nine months ended December 31, 2023, respectively. The decreases in net sales in the European market in the three and nine months ended December 31, 2024 compared to the three and nine months ended December 31, 2023 were due to general weakness in the European economy, and decreases in our net sales in the European industrial and automotive markets, which were particularly weak. Our net sales in the Americas and Asia market decreased in the three and nine months ended December 31, 2024 compared to the three and nine months ended December 31, 2023, primarily due to adverse economic conditions, including slowing economic activity, persistent inflation, high interest rates, and shorter product lead times which resulted in delayed or reduced orders. Substantially all of our foreign sales are U.S. dollar denominated. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

Gross Profit

Our gross profit in the three months ended December 31, 2024 was $561.4 million, or 54.7% of net sales, compared to $1.12 billion, or 63.4% of net sales, in the three months ended December 31, 2023. Our gross profit in the nine months ended December 31, 2024 was $1.97 billion, or 57.3% of net sales, compared to $4.21 billion, or 66.7% of net sales, in the nine months ended December 31, 2023.

The primary reasons for the decreases in gross profit of $506.9 million and $2.05 billion in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023, respectively, were an unfavorable net impact of sales volume, product mix, geographic mix, and average gross profit per unit in the three and nine months ended December 31, 2024. The net impact of product mix and average gross profit per unit may fluctuate over time due to the mix of sales volumes of lower or higher margin products, changes in selling prices, and fluctuations in product costs. We are not able to separately quantify these impacts on our gross profit. The net impact to our gross profit from inventory reserve charges was an adverse impact of $24.4 million and $84.8 million in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023, respectively. The gross margin impact of changes in licensing revenue, which has no associated cost of sales, was a favorable impact of $6.8 million and $7.4 million in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023, respectively. The impact of unabsorbed capacity charges was an adverse impact of $34.1 million and $110.1 million in the three and nine months ended December 31, 2024, respectively, compared to the three and nine months ended December 31, 2023, respectively. In the three and nine months ended December 31, 2023, the impact of unabsorbed capacity charges was not material. Unabsorbed capacity charges are expensed as incurred when we operate our manufacturing facilities below normal levels.

Our overall inventory levels were $1.36 billion at December 31, 2024, compared to $1.32 billion at March 31, 2024. We maintained 266 days of inventory on our balance sheet at December 31, 2024 compared to 224 days of inventory at March 31, 2024. Our overall inventory level was generally flat as a result of our efforts to balance manufacturing production, customer demand and inventory levels. However, our days of inventory increased significantly due to lower net sales. Our inventory amounts are impacted by timing of shipment activity in the quarter, the timing of receipt of raw materials, foundry wafers, and strategic last time buy materials and completion of finished goods. Nonetheless, we believe that our current inventory and production capacity are adequate to fulfill the projected requirements of our customers.

We operate assembly and test facilities in Thailand, the Philippines, and other locations throughout the world. Approximately 67% of our assembly requirements were performed in our internal assembly facilities during each of the three and nine months ended December 31, 2024, compared to approximately 59% and 58% during the three and nine months ended December 31, 2023, respectively. Approximately 67% of our test requirements were performed in our internal test facilities during each of the three and nine months ended December 31, 2024, compared to approximately 72% and 71% during the three and nine months ended December 31, 2023, respectively. The percentage of our assembly and test operations that are performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry, our internal capacity capabilities and our acquisition activities. We believe that the assembly and test operations performed at our internal facilities provide us with significant cost savings compared to third-party contractor assembly and test costs, as well as increased control over these portions of the manufacturing process. We plan to continue to selectively invest in assembly and test equipment to increase our internal capacity capabilities and transition certain outsourced assembly and test capacity to our internal facilities.

We rely on outside wafer foundries for a significant portion of our wafer fabrication requirements. Approximately 64% of our net sales came from products that were produced at outside wafer foundries during each of the three and nine months ended December 31, 2024, compared to approximately 64% and 65% during the three and nine months ended December 31, 2023, respectively. This percentage may vary based on supply and demand conditions in the market.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall mix of products sold during the period, as well as manufacturing yields, unabsorbed capacity charges, and competitive and economic conditions in the markets we serve. We continue to transition products to more advanced process technologies to reduce future manufacturing costs.

Research and Development

R&D expenses for the three months ended December 31, 2024 were $246.2 million, or 24.0% of net sales, compared to $266.0 million, or 15.1% of net sales, for the three months ended December 31, 2023. R&D expenses for the nine months ended December 31, 2024 were $728.6 million, or 21.2% of net sales, compared to $857.1 million, or 13.6% of net sales, for the nine months ended December 31, 2023. We are committed to investing in new and enhanced products, including development systems software, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. R&D costs are expensed as incurred. Assets purchased to support our ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their expected useful lives. R&D expenses include labor, depreciation, masks, prototype wafers, and expenses for the development of process technologies, new packages, and software to support new products and design environments.

R&D expenses decreased $19.8 million, or 7.4%, for the three months ended December 31, 2024 over the same period last year. R&D expenses decreased $128.5 million, or 15.0%, for the nine months ended December 31, 2024 over the same period last year. The primary reason for the decreases in R&D expenses was lower employee compensation costs.

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

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended December 31, 2024 were $158.2 million, or 15.4% of net sales, compared to $172.2 million, or 9.8% of net sales, for the three months ended December 31, 2023. Selling, general and administrative expenses for the nine months ended December 31, 2024 were $465.7 million, or 13.6% of net sales, compared to $572.4 million, or 9.1% of net sales, for the nine months ended December 31, 2023. Our goal is to continue to be more efficient with our selling, general and administrative expenses. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses as well as costs related to our direct sales force, CEMs and ESEs who work remotely from sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased $14.0 million, or 8.1%, for the three months ended December 31, 2024 over the same period last year. Selling, general and administrative expenses decreased $106.7 million, or 18.6%, for the nine months ended December 31, 2024 over the same period last year. The primary reason for the decreases in selling, general and administrative expenses was lower employee compensation costs.

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

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets for the three and nine months ended December 31, 2024 was $122.6 million and $368.3 million, respectively, compared to $151.3 million and $454.2 million for the three and nine months ended December 31, 2023, respectively. The primary reason for the decreases in acquired intangible asset amortization was due to the use of accelerated amortization methods for assets placed in service in previous fiscal years.

Special Charges and Other, Net

During the three and nine months ended December 31, 2024, we incurred special charges and other, net of $3.5 million and $7.6 million, respectively, primarily related to employee severance and the restructuring of acquired and existing wafer fabrication operations to increase operational efficiency. During the three and nine months ended December 31, 2023, we incurred special charges and other, net of $1.1 million and $4.6 million, respectively, primarily related to restructuring of acquired and existing wafer fabrication operations to increase operational efficiency.

Other Income (Expense)

Interest expense in the three and nine months ended December 31, 2024 was $68.7 million and $189.6 million, respectively, compared to $49.2 million and $143.2 million, respectively, for the three and nine months ended December 31, 2023. The primary reasons for the increases in interest expense were higher debt balances and higher interest rates on such outstanding debt balances in the three and nine months ended December 31, 2024.

During the three and nine months ended December 31, 2024, we recognized losses of $0.3 million related to the settlement of our 2025 Term Loan Facility. During the nine months ended December 31, 2023, we recognized losses of $12.2 million related to the settlement of a portion of our outstanding Convertible Debt.

Provision for Income Taxes

Our provision for income taxes is attributable to U.S. federal, state, and foreign income taxes. A comparison of our effective tax rates for the nine months ended December 31, 2024 and December 31, 2023 is not meaningful due to changes in the amount of pre-tax income earned, changes in the mix of jurisdictions in which income is earned, and the impact of discrete items relative to the amount of income earned.

We are subject to taxation in many jurisdictions in which we have operations. The effective tax rates that we pay in these jurisdictions vary widely, but they are generally lower than our combined U.S. federal and state effective tax rate. Our domestic blended statutory tax rate in each of the nine months ended December 31, 2024 and December 31, 2023 was approximately 22%. Our non-U.S. blended statutory tax rates in the nine months ended December 31, 2024 and December 31, 2023 were lower than this amount. The difference in rates applicable in foreign jurisdictions results from a number of factors, including lower statutory rates, tax holidays, financing arrangements and other factors. Our effective tax rate has been and will continue to be impacted by the geographical dispersion of our earnings and losses.

Our foreign tax rate differential benefit primarily relates to our operations in Malta taxed at a 5.0% statutory tax rate and Ireland taxed at a 12.5% statutory tax rate. Additionally, our Thailand manufacturing operations are currently subject to numerous tax holidays granted to us based on our investment in property, plant, and equipment in Thailand. Our tax holiday periods in Thailand expire at various times in the future; however, we actively seek to obtain new tax holidays, otherwise we will be subject to tax at the statutory tax rate of 20.0%. We do not expect the future expiration of any of our tax holiday periods in Thailand to have a material impact on our effective tax rate.

In September 2021, we received a Statutory Notice of Deficiency (2007 to 2012 Notice) from the United States Internal Revenue Service (IRS) for fiscal 2007 through fiscal 2012. The disputed amounts largely relate to transfer pricing matters. In December 2021, we filed a petition in the U.S. Tax Court challenging the 2007 to 2012 Notice.

In September 2023, we received a Revenue Agent Report (RAR) from the IRS for fiscal 2013 and fiscal 2016. In October 2023, we received a Statutory Notice of Deficiency (2014 to 2015 Notice) from the IRS for fiscal 2014 and fiscal 2015. The disputed amounts for fiscal 2013 to fiscal 2016 largely relate to transfer pricing matters. In December 2023, we filed a petition in the U.S. Tax Court challenging the 2014 to 2015 Notice.

In May 2023, we received a proposed income adjustment from the Malaysian Inland Revenue Board (IRB) for fiscal 2020. In December 2023, we received a Notice of Assessment from the IRB asserting the same proposed income adjustment. If the adjustment is upheld by the highest court that has jurisdiction over this matter in Malaysia, it could result in income taxes and penalties up to $410.0 million. The disputed amounts largely relate to the characterization of certain assets. Depending on the outcome of the IRB audit, we may need to adjudicate this matter in Malaysia, and if we do, we may be required to pay the assessment and then, upon a series of favorable court rulings, request a refund of the amount. The timing of adjudicating this matter is uncertain but could occur in the next 12 months. We firmly believe that the assessment is without merit and we plan to pursue all available administrative and judicial remedies necessary to resolve this matter. We intend to vigorously defend our position and we are confident in our ability to prevail on the merits.

We regularly assess the likelihood of adverse outcomes resulting from examinations such as these to determine the adequacy of our tax reserves. The ultimate outcome of disputes of this nature is uncertain, and if the IRS and IRB were to prevail on their assertions, the assessed tax, penalties, and deficiency interest could have a material adverse impact on our financial position, results of operations or cash flows.

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

In August 2022, the U.S. government enacted the Inflation Reduction Act into law. The Inflation Reduction Act includes a new corporate alternative minimum tax (Corporate AMT) of 15.0% on the adjusted financial statement income (AFSI) of corporations with average AFSI exceeding $1.00 billion over a three-year period, as well as a 1% excise tax on the net fair market value of stock repurchases made after December 31, 2022. The Corporate AMT is effective beginning in fiscal 2024. The Inflation Reduction Act did not have a material impact on our tax expense, cash taxes, or effective tax rate for the nine month period ending December 31, 2024 and year ending March 31, 2024.

As of December 31, 2024, 53 countries have enacted various aspects of the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting Project to ensure that multinational enterprises pay a GMT. In 38 of those countries, the GMT is effective for tax years beginning in our fiscal 2025. As of December 31, 2024, the impact of GMT on our fiscal 2025 results is not expected to be material.

Liquidity and Capital Resources

We had $586.0 million in cash and cash equivalents at December 31, 2024, an increase of $266.3 million from the March 31, 2024 balance.

Operating Activities

Net cash provided by operating activities was $692.2 million in the nine months ended December 31, 2024 primarily due to net income of $154.1 million, adjusted for non-cash and non-operating charges of $589.5 million and net cash outflows of $51.4 million from changes in our operating assets and liabilities. The primary drivers of the changes in operating assets and liabilities in the nine months ended December 31, 2024 include an increase in inventories related to increased raw materials and foundry wafers, decreases in accrued liabilities driven by decreases in sales related reserves, a decrease due to cash refunded to our customers under the LTSAs, offset by an increase in income tax payable and a decrease in trade accounts receivable driven primarily by reduced revenue and timing of shipments and collections. Net cash provided by operating activities was $2.46 billion in the nine months ended December 31, 2023 primarily due to net income of $1.75 billion, adjusted for non-cash and non-operating charges of $866.4 million and net cash outflows of $155.9 million from changes in our operating assets and liabilities.

Investing Activities

Net cash used in investing activities was $231.8 million in the nine months ended December 31, 2024 compared to $320.9 million in the nine months ended December 31, 2023. During the nine months ended December 31, 2024, and the nine months ended December 31, 2023, net investing activities primarily related to capital purchases and investments in other assets.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the nine months ended December 31, 2024 were $111.8 million compared to $245.0 million in the nine months ended December 31, 2023. Capital expenditures were primarily for the selective expansion of production capacity and the addition of research and development equipment. Consistent with the slowing macroeconomic environment in fiscal 2025, we have paused most of our factory expansion actions and reduced our planned capital investments through fiscal 2026. We currently intend to invest between $100 million and $150 million in equipment and facilities during the next 12 months. We believe that the capital expenditures anticipated to be incurred over the next 12 months will provide sufficient manufacturing capacity to support the growth of our production capabilities for our new products and technologies and to bring in-house more of the assembly and test operations that are currently outsourced. We expect to finance our capital expenditures through our existing cash balances and cash flows from operations. In February 2023, we announced our plan to invest $880 million over the next several years to expand our SiC and silicon production capacity, including the production of 8-inch wafers, at our Fab 5 facility. While select investments are still being made, in the fourth quarter of fiscal 2024, we paused most of our expansion activity. In the third quarter of fiscal 2025, we announced the closure of Fab 2 in Tempe, Arizona which is expected to occur in the second quarter of fiscal 2026. Despite pausing our expansion activity, we believe that our current inventory and production capacity are adequate to fulfill the projected requirements of our customers. In August 2022, the U.S. government enacted the CHIPS Act which is to provide billions of dollars of cash incentives and a new investment tax credit to increase domestic manufacturing capacity in our industry. In December 2023, we reached a Preliminary Memorandum of Terms with the U.S. Department of Commerce for $162 million in CHIPS Act grants for two of our U.S. wafer fabrication facilities; however, in the third quarter of fiscal 2025, our CHIPS Act negotiations were paused and there can be no assurance that we will conclude grant negotiations or that the grants will receive final approval. If we do receive a CHIPS Act grant, the restrictions and operational requirements that are imposed on CHIPS Act grant recipients could add complexity to our operations and increase our costs. We expect to receive the cash benefit associated with the investment tax credit for qualifying capital expenditures in future periods and may apply for other incentives provided by the legislation; however, there can be no assurance that we will receive any such other incentives, what the amount and timing of any incentive we receive will be, as to which other companies will receive incentives and whether the legislation will have a positive or negative impact on our competitive position.

Financing Activities

Net cash used in financing activities was $194.1 million in the nine months ended December 31, 2024 compared to $2.09 billion in the nine months ended December 31, 2023. Significant transactions affecting our net financing cash flows included:

- in the first nine months of fiscal 2025, $654.9 million of net proceeds from the issuances of our 4.900% 2028 Senior Notes, our 5.050% 2030 Senior Notes, our 2024 Senior Convertible Debt and our Commercial Paper, offset by the settlement of our 2020 Convertible Debt, settlement of our 2025 Term Loan Facility, purchase of our capped call options, and the pay down of our 0.983% 2024 Notes, and
- in the first nine months of fiscal 2024, $839.2 million of cash used to pay down certain principal of our debt, including settlement of a portion of our outstanding Convertible Debt, our 4.333% 2023 Notes, our 2.670% 2023 Notes, and our Revolving Credit Facility, partially funded by proceeds from borrowings on our 2025 Term Loan Facility and proceeds from the issuance of our Commercial Paper, and
- in the first nine months of fiscal 2025 and fiscal 2024, we paid cash dividends to our stockholders of $730.9 million and $669.0 million, respectively, and
- in the first nine months of fiscal 2025 and fiscal 2024, we repurchased shares of our common stock for $96.5 million and $594.7 million, respectively.

In November 2024, the amended and restated Credit Agreement, dated as of December 16, 2021 (as amended by the first incremental term loan amendment, dated as of August 31, 2023), was amended to amend the maximum total leverage ratio financial covenant for the quarterly periods ending on December 31, 2024 through December 31, 2025 to 4.75 to 1.00. In August 2023, our amended and restated Credit Agreement, dated as of December 16, 2021, was amended by the first incremental term loan amendment, dated as of August 31, 2023. Pursuant to this amendment, we borrowed an aggregate principal amount of $750.0 million under the new 2025 Term Loan Facility bearing interest at the Adjusted Term SOFR Rate, plus a margin of 1.125% to 1.5%, or Alternate Base Rate, plus a margin of 0.125% to 0.5%, with a maturity date of August 31, 2025. The interest rate margins are determined based on our credit ratings. In September 2023, we established a Commercial Paper program under which we may issue short-term unsecured promissory notes up to a maximum principal amount outstanding at any time of $2.75 billion with a maturity of up to 397 days from the date of issue. The Commercial Paper is sold from time to time at a discount from par or alternatively, sold at par and bears interest rates that will vary based on market conditions and the time of issuance. Our intention is to reduce the amounts that would otherwise be available to borrow under our Revolving Credit Facility by the outstanding amount of Commercial Paper. As of December 31, 2024, the principal amount of our outstanding indebtedness was $6.79 billion. We had no outstanding borrowings under the Revolving Credit Facility at December 31, 2024 and at March 31, 2024. At December 31, 2024, we had $1.30 billion in outstanding principal amount of Commercial Paper compared to $1.36 billion at March 31, 2024.

Capital Returns

In November 2021, our Board of Directors authorized the repurchase of up to $4.00 billion of our common stock in the open market or in privately negotiated transactions. In the first nine months of fiscal 2025, we repurchased approximately 1.0 million shares of our common stock for $90.0 million under this authorization. In the first nine months of fiscal 2024, we repurchased approximately 7.4 million shares of our common stock for $594.7 million under this authorization. As of December 31, 2024, approximately $1.56 billion remained available for repurchases under the program. As of December 31, 2024, we held approximately 40.1 million shares as treasury shares. Our current intent is to repurchase shares of our common stock in future quarters when we have stronger cash generation, improved leverage metrics, and favorable market conditions.

In October 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. To date, our cumulative dividend payments have totaled approximately $7.38 billion. A quarterly dividend of $0.455 per share was declared on February 6, 2025 and will be paid on March 7, 2025 to stockholders of record as of February 24, 2025. We expect the aggregate cash dividend for the March 2025 quarter to be approximately $244.9 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to increase our quarterly cash dividends depending upon market conditions, our results of operations, and potential changes in tax laws.

We believe that our existing sources of liquidity combined with cash generated from operations, borrowings under our Revolving Credit Facility and proceeds from issuance of our Commercial Paper will be sufficient to meet our currently anticipated cash requirements for at least the next 12 months. Our long-term liquidity requirements primarily arise from working capital requirements, interest and principal repayments related to our outstanding indebtedness, capital expenditures, cash dividends, share repurchases, and income tax payments. For additional information regarding our cash requirements see "Note 10. Commitments and Contingencies", "Note 6. Debt" and "Note 11. Income Taxes" to our condensed consolidated financial statements. The semiconductor industry is capital intensive and in order to remain competitive, we must constantly evaluate the need to make significant investments in capital equipment for both production and research and development and to expand our existing facilities or potentially construct new facilities. We may increase our borrowings under our Revolving Credit Facility or our Commercial Paper program or seek additional equity or debt financing from time to time to refinance our existing debt, maintain or expand our wafer fabrication and product assembly and test facilities, for cash dividends, for share repurchases or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including the maturity dates of our existing debt, our level of dividend payments, changes in tax laws and regulations regarding the repatriation of offshore cash, demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. We plan to refinance certain of our existing notes as they mature and we may from time to time seek to refinance certain of our other outstanding debt or Convertible Debt through issuances of new notes or convertible debt, term loans, Commercial Paper, tender offers, exchange transactions or open market repurchases. Such issuances, tender offers or exchanges or purchases, if any, will depend on prevailing market conditions, our ability to negotiate acceptable terms, our liquidity position and other factors. There can be no assurance that any financing will be available on acceptable terms due to uncertainties resulting from high interest rates, high inflation, economic uncertainty, instability in the banking sector, public health concerns, or other factors, and any additional equity financing or convertible debt financing would result in incremental ownership dilution to our existing stockholders.

Summarized Financial Information

The tables below present the summarized financial information on a combined basis for Microchip Technology Incorporated and the following subsidiaries of Microchip Technology Incorporated that provide guarantees of our Senior

Notes: Atmel Corporation, Microchip Holding Corporation, Microchip Technology LLC, Silicon Storage Technology, Inc., Microsemi Corporation, and Microchip Storage Solutions LLC (such subsidiaries collectively, the Subsidiary Obligors). The debt securities are fully and unconditionally guaranteed by the aforementioned subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. The summarized financial information is provided in accordance with the reporting requirements of Rule 13-01 under Regulation S-X and is not intended to present our financial position or results of operations in accordance with generally accepted accounting principles as such principles are in effect in the U.S.

We have presented summarized financial information below for Microchip Technology Incorporated and the Subsidiary Obligors after the elimination of intercompany transactions and balances among Microchip Technology Incorporated and the Subsidiary Obligors and investments in any subsidiaries (in millions). The Subsidiary Obligors regularly sell goods and services to non-guarantor subsidiaries (Non-Guarantors) and the Subsidiary Obligors regularly purchase goods and services from Non-Guarantor through intercompany arrangements. The summarized financial information does not eliminate the effects of these intercompany arrangements and separately presents the net effect of all of the Subsidiary Obligors' transactions with Non-Guarantor for the financial measures presented below.

	As of December 31, 2024	As of March 31, 2024
Current assets, excluding intercompany	$ 641.5	$ 470.8
Intercompany receivables from Non-Guarantors	3,239.1	2,665.6
Goodwill and intangible assets	4,608.5	4,619.0
Non-current assets, excluding intercompany	1,266.5	915.7
Non-current intercompany receivables from Non-Guarantors	182.8	186.6
Total assets	$ 9,938.4	$ 8,857.7
Current liabilities, excluding intercompany	$ 385.2	$ 618.1
Intercompany payables due to Non-Guarantors	6,029.8	5,867.6
Long-term debt	6,749.5	5,000.4
Non-current liabilities, excluding intercompany	975.0	1,037.7
Non-current intercompany payables due to Non-Guarantors	2,188.3	2,158.3
Total liabilities	$ 16,327.8	$ 14,682.1

	Nine Months Ended December 31, 2024	For the Year Ended March 31, 2024
Revenue, excluding intercompany	$ 1,072.9	$ 2,242.7
Revenue from Non-Guarantors	207.8	560.4
Total revenue	$ 1,280.7	$ 2,803.1
Gross profit, excluding intercompany	808.4	1,973.4
Gross loss from Non-Guarantors	(395.6)	(692.9)
Total gross profit	$ 412.8	$ 1,280.5
Operating income, excluding intercompany	489.0	1,419.9
Operating loss from Non-Guarantors	(395.6)	(692.9)
Total operating income	$ 93.4	$ 727.0
Net income, excluding intercompany	292.5	1,198.6
Net loss from Non-Guarantors	(414.7)	(733.4)
Total net income (loss)	$ (122.2)	$ 465.2

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of December 31, 2024, our current and long-term debt totaled $6.79 billion, all of which was fixed rate and not subject to interest rate exposure. We intend to finance the repayment of our fixed rate debt maturing within the next 12 months using available borrowings under our Revolving Credit Facility and our Commercial Paper program or other instruments at which point, changes in interest rates will have a more significant impact on our interest expense if we refinance such fixed rate debt with variable rate debt. For additional information, refer to "Note 6. Debt" for a summary of our debt obligations by maturity date.

Inflation Risk

Inflation has not had a material adverse impact on our operating results in recent periods. However, if our costs were to continue to become subject to significant inflationary pressures, we may not be able to offset such higher costs through price increases which could adversely impact our operating results.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2024, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to "Note 10. Commitments and Contingencies" to our condensed consolidated financial statements for information regarding legal proceedings.

Item 1A. Risk Factors

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

Risk Factor Summary

Risks Related to Our Business, Operations, and Industry

- impact of global economic conditions on our operating results, net sales and profitability;
- impact of economic conditions on the financial viability and performance of our licensees, customers, distributors, or suppliers;
- impact of price increases, increased tariffs, raw material availability or other factors affecting our suppliers;
- dependence on wafer foundries and other contractors by our licensees and ourselves;
- dependence on foreign sales, suppliers, and operations, which exposes us to foreign political and economic risks;
- dependence on orders received and shipped in the same quarter, limited visibility to product shipments other than those shipped through our LTSAs;
- intense competition in the markets we serve, leading to pricing pressures, reduced sales or market share;
- ineffective utilization of our manufacturing capacity or failure to maintain manufacturing yields;
- impact of seasonality and wide fluctuations of supply and demand in the industry;
- dependence on distributors;
- ability to introduce new products on a timely basis;
- business interruptions affecting our operations or that of key vendors, licensees or customers;
- technology licensing business exposes us to various risks;
- the impact of the effects of sustained adverse climate change on our operations;
- reliance on sales into governmental projects, and compliance with associated regulations;
- risks related to grants from, or tax arrangements with, governments, agencies and research organizations;
- ability to realize anticipated benefits from completed or future acquisitions or divestitures;
- future impairments to goodwill or intangible assets;
- our failure to maintain proper and effective internal control and remediate future control deficiencies;
- customer demands to implement business practices that are more stringent than legal requirements;
- ability to attract and retain qualified personnel; and
- the occurrence of events for which we are self-insured, or which exceed our insurance limits.

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

- interruptions in and unauthorized access to our IT systems and security breaches or incidents impacting our systems, or data that we or our service providers maintain or otherwise process including, but not limited to, data belonging to us, customers, suppliers, contractors or employees;
- exposure of our customers' business and proprietary confidential information due to security vulnerabilities of our products;
- risks related to use of artificial intelligence (AI);
- risks related to compliance with laws and regulations regarding privacy, data protection and cybersecurity;
- risks related to legal proceedings, investigations or claims;
- risks related to contractual relationships with our customers and suppliers; and
- protecting and enforcing our intellectual property rights.

Risks Related to Taxation, Laws and Regulations

- impact on our reported financial results by new accounting pronouncements or changes in existing accounting standards and practices;
- the issuance of new export controls or trade sanctions, fines, restrictions or delays in our ability to export or import products, or increase costs associated with the manufacture or transfer of products;
- outcome of future examinations of our income tax returns;

- exposure to greater than anticipated income tax liabilities, changes in or the interpretation of tax rules and regulations or unfavorable assessments from tax audits;
- impact of the legislative and policy changes implemented globally by the current or future administrations;
- impact of stringent environmental, climate change, conflict-free minerals and other regulations or customer demands;
- failure to meet ESG expectations, standards or disclosure requirements;
- impact regarding the responsible use of our technologies; and
- requirement to fund our foreign pension plans.

Risks Related to Capitalization and Financial Markets

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

Risks Related to Our Business, Operations, and Industry

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

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

- general economic, industry, public health or political conditions in the U.S. or internationally, including uncertain economic conditions in U.S., China and Europe, changes in interest rates, persistent inflation or instability in the banking sector;
- the level of order cancellations or push-outs due to uncertain economic conditions or other factors;
- levels of inventories held by our customers and the customers of our distributors;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- the level of orders that are received and can be shipped in a quarter, including the impact of product lead times;
- trade restrictions and increase in tariffs, including those on business in China, or focused on specific companies;
- disruptions in our business, our supply chain or our customers' businesses due to public health concerns (including viral outbreaks and pandemics), cybersecurity incidents, terrorist activity, armed conflict, war (including military conflict in the Middle East and Russia's invasion of Ukraine), worldwide oil prices and supply, fires, natural disasters or disruptions in the transportation system;
- changes in demand or market acceptance of our products and products of our customers, and market fluctuations in the industries into which such products are sold;
- availability of raw materials including rare earth minerals, supplies and equipment due to supply chain constraints, disruptions in transportation systems or other factors;
- constrained availability from other electronic suppliers or disruptions in transit systems impacting our customers' ability to ship their products, which in turn may adversely impact our sales to those customers;
- our ability to continue to increase our factory capacity as needed to respond to changes in customer demand;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- increased costs and availability of raw materials, supplies, equipment, utilities, labor, and/or subcontracted services for wafers, assembly and test;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- changes or fluctuations in customer order patterns and seasonality;
- changes in tax regulations in countries in which we do business;
- new accounting pronouncements or changes in existing accounting standards and practices;
- risk of excess and obsolete inventories;
- competitive developments including pricing pressures;
- unauthorized copying of our products resulting in pricing pressure and loss of sales;
- our ability to successfully transition to more advanced process technologies to reduce manufacturing costs;
- the level of sell-through of our products through distribution or resale;
- our ability to realize the expected benefits of our past or future acquisitions;
- fluctuations in our mix of product sales;
- announcements of other significant acquisitions by us or our competitors;

- costs and outcomes of any current or future tax audits or any litigation, investigation or claims involving intellectual property, our acquisitions, customers or other issues; and
- property damage or other losses, whether or not covered by insurance.

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

Our operating results may be adversely impacted by the financial viability and performance of our licensees, customers, distributors, or suppliers.

We regularly review the financial viability and performance of our licensees, customers, distributors and suppliers. Any downturn in global or regional economic conditions, as a result of high interest rates, high inflation, instability in the banking sector, the enactment of broad sanctions by the U.S. or other countries against Russia or China, the enactment of broad sanctions against the U.S. by other countries, public health concerns, industry work stoppages, transit stoppages or other factors, may adversely impact their financial viability. The financial decline of a large licensee, customer, reseller or distributor, an important supplier, or a group thereof, could have an adverse impact on our operating results and could result in our inability to collect our accounts receivable balances, higher allowances for credit losses, and higher operating costs as a percentage of net sales. Also, these parties may not comply with their contractual commitments, or may interpret them differently than we do, which could lead to termination of their performance with little or no notice to us, which could limit our ability to mitigate our exposure. If one of our counterparties becomes insolvent, files for bankruptcy, has business leverage, or favorable contractual terms, then our ability to recover any losses suffered as a result of that counterparty's cessation of performance may be limited by their liquidity, the applicable laws, or their willingness to negotiate a resolution. In the event of such default or cessation of performance, we could incur significant losses, which could have a material adverse effect on our business, results of operations, or financial condition.

We have various arrangements with financial institutions for our cash deposits, and other banking activities, that subject us to risk if such institutions were to experience financial or regulatory difficulties. As a result, we may experience losses on our holdings of cash and cash equivalents due to failures of financial institutions or other related parties.

We may lose sales if suppliers of raw materials, components or equipment fail to meet our or our customers' needs, increase prices, are impacted by increases in tariffs, or such raw materials, components or equipment become restricted or unavailable.

Our manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have multiple sources for these supplies, but there may be a limited number of suppliers capable of meeting our standards. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time to fill our orders, that they cannot fill certain orders, that they will no longer support certain equipment with updates or parts, or that they are increasing prices. In particular, in fiscal 2023 and in fiscal 2022, we experienced increased prices at certain suppliers for certain materials required for production purposes. However, in fiscal 2024, the pricing environment stabilized compared to the two prior fiscal years. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business. The supplies necessary for our business could become more difficult to obtain as worldwide use of semiconductors increases, or due to supply chain disruptions, transit disruptions, trade restrictions or political instability. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change our relationships with them. Also, the reduced availability of necessary labor, the application of sanctions, trade restrictions or tariffs by the U.S. or other countries or the impact of public health concerns, may adversely impact the industry supply chain. For example, in 2019, the U.S. government increased tariffs on U.S. imports with China as their country of origin. Likewise, the China government increased tariffs on China imports with U.S. as their country of origin. Although those increases in tariffs did not significantly increase the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2020 and fiscal 2019. The new U.S. administration has indicated that it may impose additional tariffs. If additional tariffs are imposed on components or equipment that we or our suppliers source from China, such tariffs will increase our costs and have an adverse impact on our operating results in future periods. We may also incur increases in manufacturing costs in mitigating the impact of tariffs on our operations. This could also impair our sourcing flexibility. Further, if the U.S. government increases tariffs on U.S. imports with China as their country of origin, China may increase tariffs on China imports with U.S. as their country of origin. We will attempt to mitigate the impact of those tariffs on our business but may experience an increase in operating costs, impaired sourcing flexibility, and reduced demand for our products, resulting in reduced revenue.

Our customers may also be adversely affected by these same issues. The labor, supplies and equipment necessary for their businesses could become more difficult to obtain for various reasons not limited to business interruptions of suppliers, reduced availability of labor, transit disruptions, consolidation in their supply chain, or sanctions, trade restrictions or tariffs or the impact of public health concerns that impair sourcing flexibility or increase costs. If our customers are not able to produce their products, then their need for our products will decrease. Such interruptions of our customers' businesses could harm our business.

We do not, nor have we historically, purchased significant amounts of equipment from Russia, Belarus, or Ukraine. However, the semiconductor industry, and purchasers of semiconductors, use raw materials that are sourced from these regions, such as neon, palladium, cesium, rubidium, and nickel. If we, or our direct or indirect customers, are unable to obtain the requisite raw materials or components needed to manufacture products, our ability to manufacture products, or demand for our products, may be adversely impacted. This could have a material adverse effect on our business, results of operations or financial condition. While there has been an adverse impact on the world's palladium, neon, cesium, and rubidium supply chains, at this time, our supply chains have been able to meet our needs. While sales of our products into Russia, Belarus and Ukraine and to customers that sell into these countries, have been negatively impacted by the Russian invasion of Ukraine, at this time, we have not experienced a material impact on our business, results of operations or financial conditions. Further, because we do not support the actions of Russia against Ukraine, in March 2022 we stopped selling products to customers and distributors located in Russia and Belarus.

Additionally, certain materials are primarily available in a limited number of countries, including rare earth elements, minerals, and metals. Trade disputes, geopolitical tensions, economic circumstances, transit disruptions, political conditions, or public health issues, may limit our ability to obtain materials or equipment. Although rare earth and other materials are generally available from multiple suppliers, China is the predominant producer of certain of these materials. If China were to restrict or stop exporting these materials, our suppliers' ability to obtain such supply may be constrained and we may be unable to obtain sufficient quantities, or obtain supply in a timely manner, or at a commercially reasonable cost. Constrained supply of rare earth elements, minerals, and metals may restrict our ability to manufacture certain of our products and make it difficult or impossible to compete with other semiconductor memory manufacturers who are able to obtain sufficient quantities of these materials from China or other countries.

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

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. Specifically, during the first nine months of fiscal 2025 and during fiscal 2024, approximately 64% of our net sales came from products that were produced at outside wafer foundries. We also use several contractors for a portion of the assembly and testing of our products. Specifically, during the first nine months of fiscal 2025, approximately 33% of our assembly requirements and 33% of our test requirements were performed by third-party contractors, compared to approximately 41% and 29%, respectively, during fiscal 2024. We have long-term commitment contracts with certain of our third-party suppliers to help ensure that we receive capacity from them to manufacture wafers and assemble and test our products. Due to decreased demand for our products in recent periods, we have taken actions to decrease our capacity allocation from our wafer fabrication, assembly and test subcontractors. However, these actions are not complete, and we could be liable for penalties if we do not take the minimum product or services required under any of our long-term commitment contracts, or we may be required to purchase products or services even though we do not need them. This could result in excess inventory, inventory reserve charges and penalties that may negatively affect our gross margin and results of operations. Additionally, if we have a need for greater manufacturing, assembly or test capacity in the future, there can be no assurance that we will be able to secure the necessary allocation of capacity from our wafer foundries and other contractors with the process technologies that we need, or that such capacity will be available on acceptable terms. As our manufacturing subcontractors move to more advanced process technologies over time, we may find that they do not invest in some of the trailing edge process technologies on which a large portion of our products are manufactured. If this occurs, it may limit the amounts of net sales that we can achieve or require us to make significant investments to be able to manufacture these products in our own facilities or at other foundries and assembly and testing contractors. Transitioning production of products to new manufacturers may result in delayed product launches, reduced yields, or decreased product performance. If we encounter issues with product quality, insufficient capacity from a third-party manufacturer, or if we discontinue using a particular manufacturer or contractor, we may face challenges in securing an alternative supply for specific products in a timely manner. This could lead to significant delays in product shipments, potentially having an adverse impact on our results of operations. If our reliance on third-party contractors increases over time, our inability to secure necessary external capacity could adversely affect our operating results.

In August 2022, the U.S. government passed the CHIPS Act to provide billions of dollars of cash incentives and a new investment tax credit to increase domestic manufacturing capacity in our industry. We expect to receive the cash benefit associated with the investment tax credit for qualifying capital expenditures in future periods and applied for other incentives provided by the legislation; however, in the third quarter of fiscal 2025, our CHIPS Act negotiations were paused and there can be no assurance that we will receive any such other incentives, what the amount and timing of any incentive we receive will be, as to which other companies will receive incentives and whether the legislation will have a positive or negative impact on our competitive position. If we conclude our CHIPS Act negotiations and receive a CHIPS Act grant, the restrictions and operational requirements that are imposed on CHIPS Act grant recipients could add complexity to our operations and increase our costs.

Our use of third parties reduces our control over the subcontracted portions of our business. Our future operating results could suffer if a significant contractor were to experience production difficulties, insufficient capacity, decreased manufacturing, reduced availability of labor, assembly and test yields, or increased costs due to disruptions such as political upheaval, transit disruptions, infrastructure disruption or pandemics. Additionally, our future operating results could suffer if our wafer foundries and other contractors increase the prices of the products and services that they provide to us. If third parties do not timely deliver products or services in accordance with our quality standards, we may be unable to qualify alternate manufacturing sources in a timely manner or on favorable terms, or at all. Additionally, these subcontractors could abandon processes that we need, or fail to adopt technologies that we desire to control costs. In such event, we could experience an interruption in production, an increase in manufacturing costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, use of subcontractors increases the risks of misappropriation of our intellectual property.

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

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

Sales to foreign customers account for a substantial portion of our net sales. During the first nine months of fiscal 2025, approximately 75% of our net sales were made to foreign customers, including 17% in China and 17% in Taiwan. During fiscal 2024, approximately 75% of our net sales were made to foreign customers, including 18% in China, 12% in Taiwan and 10% in Germany.

Having a strong position in the Chinese market is a key component of our global growth strategy. Although our sales in the Chinese market were very strong in calendar 2021, competition in China is intense, and China's economic growth slowed in calendar 2022 and through the first half of calendar 2023. In fiscal 2024 and in the first nine months of fiscal 2025, economic weakness in the Chinese market adversely impacted our sales volumes in China. As discussed above, the trade relationship between the U.S. and China remains challenging and could worsen in 2025, economic conditions in China remain uncertain, and we are unable to predict whether such uncertainty will continue or worsen in future periods. Further, increasing investment in the semiconductor industry by the Chinese government and various state-owned of affiliated entities are intended to advance China's stated national policy objectives. The Chinese government may restrict us from participating in the China market, or may prevent us from competing effectively with Chinese companies. Weakening of foreign markets, especially in China, has resulted in lower demand for our products, which has adversely impacted our revenue in recent quarters and, if such conditions continue, it could have a material adverse effect on our business, results of operations or financial conditions.

We purchase a substantial portion of our raw materials and equipment from foreign suppliers. Please see the risks related to access to raw materials, components, or equipment on page 41. In addition, we own product assembly and testing facilities, and finished goods warehouses near Bangkok, Thailand, which has experienced periods of political instability and severe flooding in the past. There can be no assurance that any future flooding or political instability in Thailand would not have a material adverse impact on our operations. We have a test facility in Calamba, Philippines. We use foundries and other foreign contractors for a significant portion of our assembly and testing and wafer fabrication requirements.

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

- economic uncertainty in the worldwide markets we serve;
- political instability, including changes in relations between China and Taiwan which could disrupt the operations

of our Taiwan-based third-party wafer foundries, and subcontractors;

- social and economic instability due to public health concerns, wars, or other factors;
- trade restrictions and changes in tariffs;
- supply chain disruptions or delays;
- potentially adverse tax consequences;
- import and export license requirements and restrictions;
- changes in laws related to taxes, trade, environmental, health and safety, technical standards, climate change, and consumer protection;
- restrictions on the transfer of funds, including currency controls in China, which could negatively affect the amount and timing of certain customer payments, and as a results our cash flows;
- currency fluctuations and foreign exchange regulations;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions due to cybersecurity incidents;
- disruptions in international transport or delivery;
- public health conditions (including viral outbreaks such as COVID-19); and
- difficulties in collecting receivables and longer payment cycles.

If any of these risks occur or are worse than we anticipate, our sales could decrease and our operating results could suffer, we could face an increase in the cost of components, production delays, business interruptions, delays in obtaining export licenses, or denials of such licenses, tariffs and other restrictions, longer payment cycles, increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business. Further changes in trade policy, tariffs, additional taxes, or restrictions on supplies, equipment, and raw materials including rare earth minerals, may limit our ability to produce products, increase our selling and/or manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial conditions.

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

Our net sales in any given quarter depend upon a combination of shipments from backlog, and orders that are both received and shipped in the same quarter, which we call turns orders. We measure turns orders at the beginning of a quarter based on the orders needed to meet the shipment targets that we set entering the quarter. Historically, our ability to respond quickly to customer orders has been part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduce our visibility on future shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times, and in light of current industry conditions, turns orders are once again key to our ability to meet our business objectives. Because turns orders can be difficult to predict, especially in times of economic volatility, as experienced in current and recent quarters, where customers may change order levels within the quarter, varying levels of turns orders make it more difficult to forecast net sales. The level of turns orders has in the past and may in the future decrease in periods where customers are holding excess inventory of our products. We believe our customers increased their order levels in previous periods of tight supply to help ensure they had sufficient inventory of our products to meet their needs, and then they were unable to sell their products at their forecasted levels which reduced our level of turns orders. As a significant portion of our products are manufactured at foundries, foundry lead times may affect our ability to satisfy certain turns orders. If we do not achieve a sufficient level of turns orders in a particular quarter relative to our revenue targets or effectively manage our production based on changes in order forecasts, our revenue and operating results will likely suffer.

Starting in the first quarter of calendar 2022, we began entering into LTSAs, which offer our customers the ability to receive prioritized capacity. LTSAs are not a guarantee of supply; however, they were designed to provide the highest priority for those orders which were under this program, and the capacity priority was on a first-come, first-served basis until the available capacity was booked. For example, in the fourth quarter of fiscal 2023, in fiscal 2024 and in fiscal 2025, we accommodated requests by customers to push-out certain orders to help them manage inventory levels and, in some cases, to help other customers that are experiencing supply shortages. However, in the event that we decide to not accommodate a request to push out orders and customers under this program still attempt to cancel or reschedule orders, or refuse shipment, we may have to take legal or other action to enforce the terms of the program, and any such actions could result in damage to our customer relationships or cause us to incur significant costs. We may be unable to recover damages from customers that default under this program. Additionally, this program has resulted in some customers holding excess inventory of our products and thus decreased their need to place new orders, including turns orders, in recent periods. We built inventories in response to customer demand, and the cancellation or deferral of product orders has resulted in excess inventory, which has resulted in write-downs of inventory and an adverse effect on our gross margins in recent periods.

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

The semiconductor industry is intensely competitive and faces price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and substantially greater financial, technical, marketing, distribution and other resources than we do. In addition, some governments, such as China, may provide, or have provided and may continue to provide, significant assistance financial or otherwise, to some of our competitors, or to new entrants, and may intervene in support of national industries and/or competitors, including to try to disrupt the U.S. semiconductor industry. The semiconductor industry has experienced significant consolidation in recent years which has resulted in several of our competitors becoming much larger in terms of revenue, product offerings and scale. We may be unable to compete successfully in the future, which could harm our business. Our ability to compete successfully depends on a number of factors, including, but not limited to:

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

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

We have experienced, and may experience in the future, modest pricing declines in certain of our proprietary product lines, primarily due to competitive conditions. In the past, we have moderated average selling price declines in many of our proprietary product lines by introducing new products with more features and higher prices. However, we may not be able to do so in the future. We have experienced in the past, and may experience in the future, competitive pricing pressures on our memory and non-proprietary products in our analog product line. In fiscal 2023 and fiscal 2022, we experienced cost increases which we were able to pass on to our customers. However, in the future, we may be unable to maintain average selling prices due to increased pricing pressure, including as a result of actions taken by foreign governments such as China to favor companies located in their own country, which could adversely impact our operating results.

We, and our competitors, seek to improve yields, and reduce die size, which could result in significant increases in worldwide supply and downward pressure on prices. Increases in worldwide supply of semiconductor products, if not accompanied by commensurate increases in demand, could lead to declines in average selling prices for our products, and could materially adversely affect our business, results of operations, or financial condition.

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

Integrated circuit manufacturing processes are complex and sensitive to many factors, including contaminants in the manufacturing environment or materials used, the performance of our personnel and equipment, and other quality issues. As is typical in the industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at or above approximately the current levels. This could include delays in the recognition of revenue, loss of revenue, and penalties for failure to meet shipment deadlines. Our operating results are adversely affected when we operate below normal capacity. In the first nine months of fiscal 2025, we operated at below normal capacity levels resulting in unabsorbed capacity charges of $119.0 million. In the first nine months of fiscal 2024, we operated at or above normal capacity levels. Additionally, as we are moving production between factories, we may experience lower than anticipated yields during this transition.

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

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Historically, since a significant portion of our revenue is from international sales and consumer markets, our business generates stronger revenues in the first half and comparatively weaker revenues in the second half of our fiscal year. However, broad fluctuations in our business, changes in semiconductor industry and global economic conditions have had and can have a more significant impact on our results than seasonality. In periods when broad fluctuations, changes in business conditions or acquisitions occur, it is difficult to assess the impact of seasonality on our business. The semiconductor industry has had significant economic downturns (including in recent periods), characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclicality by selling proprietary products, that cannot be quickly replaced, to a geographically diverse customer base across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions. In this regard, many of our customers felt the effects of slowing economic activity and increasing business uncertainty and customer requests to push-out or cancel backlog increased in the fourth quarter of fiscal 2023 and in fiscal 2024, and adversely impacted our revenue in recent periods. Consistent with the slowing macroeconomic environment, and the growth in our inventory, we have paused most of our factory expansion actions and reduced our planned capital investments through fiscal 2026. We are unable to predict the duration or continued impact of the current or any future slowdown on our business.

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

Sales to distributors accounted for approximately 45% of our net sales in the first nine months of fiscal 2025 and approximately 47% of our net sales in fiscal 2024. With the exception of certain orders placed under our LTSAs, we do not have long-term purchase agreements with our distributors, and we and our distributors may each terminate our relationship with little or no advance notice.

Future adverse conditions in the U.S. or global economies and labor markets or credit markets could materially impact distributor operations. Any deterioration in the financial condition, or disruption in the operations of our distributors, would likely adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry or economic downturn (including in recent periods), there may be an oversupply and decrease in demand for our products, which could reduce our net sales in a given period, increase order push-outs, increase inventory returns, and cause us to carry elevated levels of inventory. For example, in the fourth quarter of fiscal 2023, in fiscal 2024 and in the first nine months of fiscal 2025, we have accommodated requests by customers to push-out certain orders to help them manage inventory levels and, in some cases, to help other customers that are experiencing supply shortages. As a result of the foregoing, we have incurred charges in connection with obsolete or excess inventory, or we may not fully recover our costs, which would reduce our gross margins. Violations of the Foreign Corrupt Practices Act, export controls and sanction laws, or similar laws, by our distributors could have a material adverse impact on our business.

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

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

- effective new product selection;
- timely completion and introduction of new product designs;
- availability of skilled employees;
- procurement of licenses for intellectual property rights from third parties under commercially reasonable terms, including those that may be needed to offer interoperability between our products and third-party products;
- implementation of appropriate technical standards developed by standard setting organizations;
- timely filing and protection of intellectual property rights for new product designs;
- availability of development and support tools and collateral literature that make complex new products easy for engineers to understand and use; and

• market acceptance of our customers' end products.

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

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

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

Operations at any of our facilities, at the facilities of any of our wafer fabrication or assembly and test subcontractors, or at any of our significant vendors, licensees or customers may be disrupted due to public health concerns (including outbreaks such as COVID-19), work stoppages or reduction in available labor, power loss, insufficient water, cyber-attacks, computer network compromises, incidents of terrorism or security risk, political instability, governmental actions, telecommunications, transportation or other infrastructure failure, radioactive contamination, adverse changes in climate, or fires, earthquakes, floods, droughts, volcanic eruptions or other natural disasters. We have taken steps to mitigate the impact of some of these events should they occur; however, we cannot be certain that we will avoid a significant impact on our business in the event of a business interruption. For example, in August 2024, we determined that an unauthorized party disrupted our use of certain servers and some of our business operations. As a result, certain of our manufacturing facilities were operating at less than normal levels for a period of time, and our ability to fulfill orders was temporarily impacted. While we were able to bring the affected portions of our IT systems back online and restore normal business operations in response to this August 2024 incident without a material impact to our business, we cannot be certain that we would be able to achieve this result in the event of another cyber incident. Separately, in the first three months of fiscal 2023 and in fiscal 2022, COVID-19 related restrictions adversely impacted our manufacturing operations in the U.S., the Philippines and Thailand along with our subcontractors' manufacturing operations in Malaysia, Taiwan and China. Similar challenges arose for our logistics service providers, which adversely impacted their ability to ship product to our customers. The pandemic could adversely impact our business in future periods if the impact of COVID-19 or other public health issues again becomes severe in one or more of our key markets such as China or in areas where our suppliers or manufacturing operations are located. In the future, local governments could require us to reduce production or cease operations at any of our facilities, and we could experience constraints in fulfilling customer orders.

Additionally, operations at our customers and licensees may be disrupted for a number of reasons. In April and May 2020, we received a greater number of order cancellations and requests by our customers to reschedule deliveries to future dates. Some customers requested order cancellations within our firm order window and claimed applicability of force majeure clauses due to the impact of COVID-19. Likewise, if our licensees are unable to manufacture and ship products incorporating our technology, or if there is a decrease in product demand due to a business disruption, our royalty revenue may decline.

Also, Thailand has experienced periods of severe flooding in recent years. While our facilities in Thailand have continued to operate normally, there can be no assurance that future flooding in Thailand would not have a material adverse impact on our operations. If operations at any of our facilities, or our subcontractors' facilities are interrupted, we may not be able to timely shift production to other facilities, and we may need to spend significant amounts to repair or replace our facilities and equipment. Business interruptions would likely cause delays in shipments of products to our customers, and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues, cancellation of orders, or loss of customers. Although we maintain business interruption insurance, such insurance will likely not compensate us for any losses or damages, and business interruptions could significantly harm our business. For more information on adverse climate change see our risk "*Sustained adverse climate change poses risks that could harm our results of operations*" on page 61.

Our technology licensing business exposes us to various risks.

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

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

Because our licensed technologies are complex, there may be delays from time to time in developing and enhancing such technologies. There can be no assurance that our existing or any enhanced or new technology will achieve or maintain substantial market acceptance. Our licensees may experience disruptions in production or reduced production levels which would adversely affect the revenue that we receive. Our technology license agreements generally include a clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from certain intellectual property matters. We could be exposed to substantial liability for claims or damages related to intellectual property matters or indemnification claims. We have a program to audit the royalty payments made by our licensees to help ensure that the payments are in accordance with the terms of the applicable license agreements. From time to time, we or our licensees have contested the amount of royalty payments and related claims have resulted and could result in significant legal fees and require significant attention from our management. These issues may adversely impact the success of our licensing business and adversely affect our future operating results.

Sales into governmental projects, and compliance with associated regulations, could have a material adverse effect on our results of operations.

A significant portion of our sales are from or are derived from government agencies or customers who sell to U.S. government agencies. Such sales are subject to uncertainties regarding governmental spending levels, spending priorities, regulatory and policy changes. Future sales into U.S. government projects are subject to uncertain government appropriations and national defense policies and priorities, including the budgetary process, changes in the timing and spending priorities, the impact of any past or future government shutdowns, contract terminations or renegotiations, future sequestrations, changes in regulations that we must comply with to be eligible to accept new contracts, such as the Cybersecurity Maturity Model Certification requirements, or the impact of pandemics. For example, in fiscal 2022, as a result of the COVID-19 pandemic, we experienced suspensions and stop work orders for some of our subcontracts. Additionally, a section in the U.S. National Defense Authorization Act of 2023 (the NDAA 2023), signed into law on December 23, 2022, with provisions that go into effect in December 2027, prohibits U.S. government agencies from buying semiconductor products or services manufactured by SMIC, YMTC, CXMT and any other entity that the Secretary of Defense or the Secretary of Commerce determine is owned, controlled, or connected to the government of a foreign country of concern (Prohibited Companies). Some of our products are manufactured at SMIC, and some of our suppliers buy products manufactured at YMTC. If we are unable to alternately source or manufacture certain of our products, or discontinue use of products from Prohibited Companies, if any, when Section 5949 of the NDAA 2023 goes into effect in December 2027, this could adversely impact our sales to U.S. government agencies and their prime customers. Although such actions have not yet had a material adverse impact on our business, there can be no assurance as to the future costs or implications of such actions. Sales into government projects are also subject to uncertainties related to monetary, regulatory, tax and trade policies implemented by current or future administrations or by the U.S. Congress.

Delays, reductions in or terminations of government contracts or subcontracts, including those caused by any past or future shutdown of the U.S. federal government, could materially and adversely affect our operating results. If, in the future, the U.S. government fails to complete its annual budget process, provide for a continuing resolution to fund government operations or increase the federal debt limit, another federal government shutdown may occur, during which we may experience further delays, reductions in or terminations of government contracts or subcontracts, which could materially and adversely affect our operating results. While we generally function as a subcontractor in these type of transactions, further changes in U.S. government procurement regulations and practices, particularly surrounding initiatives to reduce costs or increase compliance obligations (such as the Cybersecurity Maturity Model Certification), may adversely impact the contracting environment, our ability to hire and retain employees, and our operating results.

The U.S. government and its contractors may terminate their contracts with us at any time. Uncertainty in government spending and termination of contracts for government related projects could have a material adverse impact on the revenue from our government related business. Our contracts with U.S. governmental agencies or prime customers require us to comply with the contract terms, and governmental regulations, particularly for our facilities, systems and personnel that service such customers. To be awarded new contracts, we may be required to meet certain levels of the Cybersecurity Maturity Model Certifications that we may not meet, or may choose not to meet. We are also required to have facility security clearances to perform classified contracts and to build and sell classified products for U.S. governmental agencies. These clearances are subject to the requirements and regulations including the National Industrial Security Program Operating Manual that governs the protection of classified information released or disclosed in connection with the performance of classified government contracts. Complying with these regulations, including audit requirements, requires that we devote significant resources to such matters in terms of training, personnel, information technology and facilities. The increased cost of compliance may adversely affect our operating results. Any failure to comply with these requirements and regulations may result in fines and penalties, or loss of current or future business including our ability to continue as a supplier to U.S. governmental agencies and its contractors and may materially and adversely affect our operating results.

From time to time we receive grants from governments, agencies and research organizations, or enter into tax arrangements. If we are unable to comply with the terms of those grants or arrangements, we may not be able to receive or recognize benefits or we may be required to repay benefits, recognize related charges, or could be required to implement certain limitations on our business, which would adversely affect our operating results and financial position.

From time to time, we have received, and may in the future receive, economic incentive grants, tax benefits, and allowances from national, state and local governments, agencies and research organizations targeted at increasing employment, production or investment at specific locations. Tax arrangements and subsidy grant agreements typically contain economic incentive, headcount, capital and research and development expenditures and other covenants that must be met to receive and retain benefits, and these programs can be subjected to periodic review by the relevant governments. The CHIPS Act and its associated regulations, for example, may contain certain restrictions on grant recipient technology licensing activities and the expansion of certain facilities. Compliance with these restrictions could add complexity to our operations and increase our costs. In addition, noncompliance with the conditions of the grants or arrangements could result in our forfeiture of all or a portion of any future amounts to be received, as well as the repayment of all or a portion of amounts received to date. We may be unable to obtain future incentives to continue to fund a portion of our capital expenditures and operating costs, without which our cost structure would be adversely impacted. Further, any decrease in amounts received could have a material adverse effect on our business, results of operations, or financial condition.

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

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. In May 2018, we acquired Microsemi, which was our largest and most complex acquisition ever. Integration of our acquisitions is complex and may be costly and time consuming and include unanticipated issues, expenses and liabilities. We may not successfully or profitably integrate, operate, maintain and manage any newly acquired operations or employees. We may not be able to maintain uniform standards, procedures and policies. We may not realize the expected synergies and cost savings from the integration. There may be increased risk due to integrating financial reporting and internal control systems. It may be difficult to develop, manufacture and market the products of a newly acquired company, or grow the business at the rate we anticipate. There may be increased risk associated with the activities of the acquired company such as regulatory violations related to their use of AI in their operations, technology development or product offerings or cyber security risks. Following an acquisition, we may not achieve the revenue or net income levels that justify the acquisition. We may suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. We have been and may in the future be subject to claims from terminated employees, stockholders of Microchip or the acquired companies and other third parties related to the transaction. In particular, in connection with our Microsemi and Atmel acquisitions, we became involved with third-party claims, litigation, governmental investigations and disputes related to such businesses and transactions. Acquisitions may also result in charges (such as acquisition-related expenses, write-offs, restructuring charges, or future impairment of goodwill), contingent liabilities, adverse tax consequences, additional share-based compensation expense and other charges that adversely affect our operating results. To fund our acquisition of Microsemi, we used a significant portion of our cash balances and incurred approximately $8.10 billion of additional debt. We may fund future acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our Revolving Credit Facility, issuing Commercial Paper, raising debt, issuing shares of our common stock, or other mechanisms.

Further, if we decide to divest assets or a business, it may be difficult to find or complete divestiture opportunities or alternative exit strategies, which may include site closures, timely or on acceptable terms. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to the desired divestiture, or the price or terms of the divestiture may be less favorable than we had anticipated. Even following a divestiture or other exit strategy, we may have certain continuing obligations to former employees, customers, vendors, landlords or other third parties. We may also have continuing liabilities related to former employees, assets or businesses. Such obligations may have a material adverse impact on our results of operations and financial condition.

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

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

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. As of December 31, 2024, we had goodwill of $6.68 billion and net intangible assets of $2.52 billion. In connection with the completion of our acquisition of Microsemi in May 2018, our goodwill and intangible assets increased significantly. We review our indefinite-lived intangible assets, including goodwill, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets is more likely than not impaired. Factors that may be considered in assessing whether goodwill or intangible assets may be impaired include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on experience and to rely heavily on projections of future operating performance. Because we operate in highly competitive environments, projections of our future operating results and cash flows may vary significantly from our actual results. Through December 31, 2024, we have never recorded a goodwill impairment charge. There were no intangible asset impairment charges in the first nine months of fiscal 2025. If in future periods, we determine that our goodwill or intangible assets are impaired, we will be required to write down these assets which would have a negative effect on our condensed consolidated financial statements.

If we fail to maintain proper and effective internal control and remediate any future control deficiencies, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and our reputation with investors.

We have in the past identified a material weakness in our internal controls related to accounting for income taxes and we also identified a material weakness in our internal controls related to IT system access. Although such material weaknesses were remediated in fiscal 2020, there can be no assurance that similar control issues will not be identified in the future. If we cannot remediate future material weaknesses or significant deficiencies in a timely manner, or if we identify additional control deficiencies that individually or together constitute significant deficiencies or material weaknesses, our ability to accurately record, process, and report financial information and our ability to prepare financial statements within required time periods, could be adversely affected. Failure to maintain effective internal controls could result in violations of applicable securities laws, stock exchange listing requirements, and the covenants under our debt agreements, subject us to litigation and investigations, negatively affect investor confidence in our financial statements, and adversely impact our stock price and our ability to access capital markets.

Ensuring that we have adequate internal financial and accounting controls and procedures so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 which requires an annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. In addition to the identified material weaknesses related to accounting for income taxes and to IT system access, which were remediated as of March 31, 2020, we have from time to time identified other significant deficiencies. If we fail to remediate any future material weaknesses or significant deficiencies or to maintain proper and effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

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

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

We must attract and retain qualified personnel to be successful, and competition for qualified personnel has intensified.

We must attract and retain qualified personnel to be successful, and competition for qualified personnel and available labor may intensify for a variety of reasons, including the increase in work-from home arrangements, and the wage inflation in our industry. Also, long-term labor conditions may intensify due to the expected construction of new wafer fabrication facilities by foundries and third parties in locations near our existing facilities.

Our ability to attract and retain skilled employees such as management, technical, marketing, sales, research and development, manufacturing, and operational personnel is critical to our business. We rely on a direct labor force at our manufacturing facilities. Any inability to maintain our labor force at our facilities may disrupt our operations, delay production, shipments and revenue and result in us being unable to timely satisfy customer demand, and ultimately could materially and adversely affect our business, financial condition and results of operations. Our inability to attract and retain hardware and software engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell, our products. We have no employment agreements with any member of our U.S. senior management team, and it is possible that they could leave with little or no notice, which could make it more difficult for us to execute our planned business strategy. Our inability to retain, attract or motivate personnel could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

We continue to be the target of attacks on our IT systems. Interruptions in and unauthorized access to our IT systems, security breaches or incidents impacting our systems or data that we or our service providers maintain or otherwise process including data belonging to us, customers, suppliers, contractors or employees, could adversely affect our business.

We rely on the uninterrupted operation of complex IT systems and networks to operate our business. Any improper handling of confidential data, or significant disruption to our systems or networks, including, but not limited to, any that may relate to new system implementations, computer viruses, security breaches or incidents, cyber-attacks, ransom-style attacks, theft or tampering, inadvertent error, facility issues, natural disasters, terrorism, war, telecommunication failures or energy blackouts, security breaches or incidents in our customers' or third-party providers' networks, in third-party products we use, or in cloud-based services provided to, by, or enabled by us, or any data we or our service providers maintain or otherwise process, including but not limited to, data belonging to us or our customers, suppliers, contractors or employees, or any perception any of the foregoing has occurred, could have a material adverse impact on our business, operations, supply chain, sales and operating results, result in regulatory inquiries, investigations or other proceedings against us, result in claims, demands and litigation against us, or damage our reputation. Such improper handling of confidential data, or system or network disruption, or any cyber-attack or other means of effectuating a security breach or incident, could result in loss or unavailability of all or a portion of our systems and business operations, and a loss, unavailability, an unauthorized release of, or other unauthorized use or processing of, personal data, or our suppliers' or our customers' intellectual property or confidential, proprietary or sensitive information. Any such matter, or any perception that it has occurred, could harm our business or competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages, and may result in lower revenue, lower margins, regulatory investigations, inquiries or other proceedings, enforcement actions, remediation obligations, claims for damages, litigation, and fines, penalties, damages, other liabilities, and other sanctions.

We have experienced and continue to experience verifiable attacks on our IT systems and data, including network compromises, attempts to breach our security measures and attempts to introduce malicious software into our IT systems. For example, in August 2024, we determined that an unauthorized party disrupted our use of certain servers and some of our business operations. As a result, certain of our manufacturing facilities were operating at less than normal levels for a period of time, and our ability to fulfill orders was temporarily impacted. While we were able to bring the affected portions of our IT systems back online and restore normal business operations in response to this August 2024 incident without a material impact to our business, we cannot be certain that we would be able to achieve this result in the event of another cyber-attack. We routinely evaluate the effectiveness of the containment mechanisms that we have implemented and continue to implement additional measures. We analyzed the information that was compromised in August 2024 and we do not believe that this cyber incident has had a material adverse effect on our business or resulted in any material damage to us. New information can develop that may impact our assessment of cyber events, including information learned as we develop and deploy mitigations.

Due to the types of products we sell and the significant amount of sales we make to government agencies or customers whose principal sales are to U.S. government agencies, we have experienced and expect to continue to experience in the future, attacks on our IT systems and data, including attempts to breach our security, network compromises and attempts to introduce malicious software into our IT systems. Geopolitical events and tensions may increase these risks. Also, as AI continues to evolve, cyber-attackers could use AI to develop malicious code, sophisticated phishing attempts, and convincing deep fakes. A deep fake is a manipulation of our content or the voices or images of our leaders to maliciously publish false messages that appear to be authentic. Such messages may harm our reputation, which may in turn have an adverse impact on our revenue and profits, and reduce the trading price of our stock. A threat could also be introduced by our or our customers and business partners use of AI tools. The output of these tools may include threats such as introducing malicious code when AI generated source code is incorporated into products or systems. Were any future attacks to be successful, or through the unintentional introduction of security vulnerability due to AI usage, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. More generally, we may face significant delays in identifying, remediating, and otherwise responding to any interruption, disruption, security breach or incident.

In recent years, we have regularly implemented improvements to our protective measures that have included, but have not been limited to, implementation of the following: firewalls, endpoint intrusion detection and response software, regular patches, log monitors, event correlation tools, network segmentation, routine backups with offsite retention of storage media, system audits, dual factor identification, data partitioning, privileged account segregation and monitoring, routine password modifications, and an enhanced information security program including training classes and phishing exercises for employees and contractors with system access, along with tabletop exercises conducted by information security personnel.

As a result of the material weakness in our internal controls resulting from the IT systems compromise that we experienced in fiscal 2019, we have taken remediation actions and implemented additional controls and we are continuing to take actions to attempt to address evolving threats. However, our system improvements have not been fully effective in preventing attacks on our IT systems and data, including breaches of our security measures, and there can be no assurance that any future system improvements will be effective in preventing cyber-attacks or disruptions, a ransom-style attack, or limiting the damage from any cyber-attacks or disruptions. Our ability to recover from ransomware and other ransom-style attacks may be limited if our backups have been affected by the attack, or if restoring data from backups is delayed or not feasible. Our system improvements have resulted in increased costs to us and we may be required to dedicate additional expenditures and resources to making system improvements and otherwise addressing cybersecurity matters in the future, whether in response to any disruption, interruption, breach, incident or otherwise. Further, any future improvements, attacks or disruptions could result in additional costs related to rebuilding our internal systems, defending litigation, complaints or other claims, providing notices to regulatory agencies or other third parties, responding to regulatory inquiries, actions or other proceedings, or paying damages, fines or penalties. Such attacks or disruptions could have a material adverse impact on our business, operations and financial results. Furthermore, our efforts to comply with evolving laws and regulations related to cybersecurity, such as the recently enacted SEC rules requiring disclosure of a material cybersecurity incident, may be costly and any actual or alleged failure to comply could result in investigations, proceedings, investor lawsuits and reputational damage.

In addition, employees and former employees, in particular former employees who become employees of our competitors, customers, licensees, or other third parties, including state actors, have in the past and may in the future misappropriate, wrongfully use, publish, access, process or provide to our competitors, customers, licensees or other third parties, including state actors, our technology, intellectual property, or other proprietary or confidential information. This risk would be exacerbated to the extent our competitors for talent, particularly engineering talent, hire our employees. Similarly, we provide access to certain of our technology, intellectual property, and other proprietary or confidential information to our direct and indirect customers and licensees and certain of our consultants, who may wrongfully use such technology, intellectual property or information, or wrongfully disclose such technology, intellectual property or information to third parties, including our competitors or state actors.

Third-party service providers, such as wafer foundries, assembly and test contractors, distributors, credit card processors, and other vendors have access to portions of our and our customers' data. These service providers also face significant cybersecurity threats, and they may be subject to cyber-attacks, disruptions, and interruptions to their networks and systems, and otherwise may suffer from security breaches and incidents. Any such breach or incident, including any involving misappropriation, loss or other unauthorized processing of data maintained or otherwise processed by our third-party service providers, or any perception any of these has occurred, could negatively impact our business, operations and financial results, as well as our relationship with our customers.

Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our cybersecurity practices or measures. We do not have insurance coverage specially for cybersecurity matters. Insurance coverage that we do have may not be adequate or sufficient to protect us from or to mitigate liabilities arising out of our cybersecurity practices or measures or otherwise relating to any cybersecurity breach or incident, and we cannot be sure that such coverage will continue to be available on commercially reasonable terms or at all, or that such coverage will pay future claims.

We face risks related to security vulnerabilities in our products.

Our products, or IP that we purchase or license from third parties for use in our products, as well as industry-standard specifications that we implement in our products, may be subject to security vulnerabilities. And, while some of our products contain encryption or security algorithms to protect third-party content or user-generated data stored on our products, these products could still be hacked or the encryption schemes could be compromised, breached, or circumvented by motivated and sophisticated attackers. Our products are being used in application areas that create new or increased cybersecurity, privacy or safety risks including applications that gather and process data, such as the cloud or Internet of Things, and automotive applications. We, our customers, and the users of our products may not promptly learn of or have the ability to fully assess the magnitude or effects of a vulnerability, including the extent, if any, to which a vulnerability has been exploited. Additionally, new information can develop that may impact our assessment of a security vulnerability, including information learned as we develop and deploy mitigations, or become aware of additional variants or evaluate the competitiveness of products.

Security vulnerabilities and any limitations of, or adverse effects resulting from, mitigation techniques can adversely affect our results of operations, financial condition, sales, customer relationships, share price, prospects, and reputation in a number of ways, any of which may be material. Adverse publicity about security vulnerabilities or mitigations could damage our reputation with customers or users and reduce demand for our products and services. These effects may be greater to the extent that competing products are not susceptible to the same vulnerabilities or if vulnerabilities can be more effectively mitigated in competing products. Moreover, third parties can release information regarding potential vulnerabilities of our products before mitigations are available. This, in turn, could lead to attempted or successful exploits of vulnerabilities, adversely affect our ability to introduce mitigations, or otherwise harm our business and reputation.

We face risks to our business and proprietary confidential information due to use of AI.

We limit our employees' use of third-party and open-source AI tools, such as ChatGPT, in accordance with our internal guidelines and procedures. However, the internal governance of the use of these technologies can be challenging, and our employees and consultants may use these tools on an unauthorized basis and our partners may use these tools, which poses additional risks relating to the protection of data, including the potential exposure of our proprietary confidential information to unauthorized recipients and the misuse of our or third-party intellectual property. Use of AI tools may result in allegations or claims against us related to violation of third-party intellectual property rights, unauthorized access to or use of proprietary information, failure to comply with open-source software requirements, and failure to comply with actual or asserted legal or other obligations. AI tools may also produce inaccurate responses that could lead to errors in our decision-making, product development or other business activities, which could have a negative impact on our business, operating results and financial condition. Our ability to mitigate these risks will depend on our continued effective maintaining, training, monitoring and enforcement of appropriate guidelines and procedures governing the use of AI tools, and the results of any such use, by us or our partners.

Issues relating to the responsible use of our technologies, including AI, may result in reputational or financial harm and liability.

Concerns relating to the responsible use of technologies, including new and evolving technologies such as AI, in our internal operations and products may result in reputational or financial harm and liability and may cause us to incur costs to resolve such issues. AI poses emerging legal, social, and ethical issues and presents risks and challenges that could affect its adoption, and therefore our business. If we enable or offer solutions that draw controversy due to their perceived or actual impact on society, such as AI solutions that have unintended consequences, infringe copyright or rights of publicity, or are controversial because of their impact on human rights, privacy, employment or other social, economic or political issues, or if we are unable to develop effective internal policies and frameworks relating to the responsible development and use of AI enabling products, we may experience brand or reputational harm, competitive harm or legal liability. Complying with regulations from different jurisdictions related to AI could increase our cost of doing business, may change the way that we operate in certain jurisdictions, or may impede our ability to use AI in our internal operations or offer certain products and services in certain jurisdictions if we are unable to comply with regulations. Compliance with existing and proposed government regulation of AI, including in jurisdictions such as the EU, may also increase the cost of related research and development, and create additional reporting and/or transparency requirements. New and updated AI regulations could impose onerous obligations that may disadvantage us and require us to change our business practices. Furthermore, changes in AI-related regulation could impact us and require us to change our business practices, which may negatively impact our financial results.

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

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

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

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

In the U.S., federal, state, and local governments have enacted numerous laws and regulations relating to privacy, data protection, and cybersecurity. For example, California has enacted the CCPA, which creates new individual privacy rights for California consumers (as defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CPRA, which became operative January 1, 2023, expands the CCPA’s requirements, including applying to personal information of business representatives and employees and establishing a new regulatory agency to implement and enforce the law. Additionally, numerous other states have proposed or enacted laws addressing privacy and security, many of which impose obligations similar to those of the CCPA. The U.S. federal government also is contemplating federal privacy legislation. The CCPA, and other evolving legislation relating to privacy, data protection, and information security may impact our business activities and require us to modify our policies and practices.

If other jurisdictions enact similar cross-border personal data transfer laws and local personal data residency laws, it would increase the cost and complexity of doing business and non-compliance could result in fines or other sanctions from regulators. The inability to transfer personal data to the U.S. could significantly and negatively impact our business operations, limit our ability to collaborate with parties that are subject to European and other data privacy and security laws, or require us to increase our personal data processing capabilities in Europe and/or elsewhere at significant expense. Some European regulators have prevented companies from transferring personal data out of Europe for allegedly violating the GDPR’s cross-border data transfer limitations, which could negatively impact our business.

While we plan to continue to undertake efforts to conform to current legal and regulatory obligations and to account for relevant best practices, such efforts may be unsuccessful or result in significant costs. We may also experience reluctance, or refusal by European or multi-national customers to continue to provide us with personal data due to the potential risk exposure of personal data transfers and the current data protection obligations imposed on them by applicable data protection laws or by certain data protection authorities. These and any other laws relating to privacy or data protection and their interpretations continue to develop and their uncertainty and inconsistency may increase the cost of compliance, cause compliance challenges, restrict our ability to offer products in certain locations in the same way that we have been, and potentially adversely affect certain third-party service providers. Further, any actual or alleged failure by us or our service providers to comply with laws, regulations, or other actual or asserted obligations relating to privacy, data protection, or cybersecurity may subject us to claims, demands, and litigation, sanctions or fines by regulators, and other damages and liabilities. Any of the foregoing may harm our reputation and market position and otherwise could adversely affect our business, financial condition and results of operations.

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

We are currently, and in the future may be, involved in legal proceedings, investigations or claims regarding intellectual property rights, product defects, breach of contracts, export controls and sanctions, and other matters. As is typical in the semiconductor industry, we receive notifications from third parties from time to time who believe that we owe them indemnification or other obligations related to claims made against us, our direct or indirect customers, or our licensees. These legal proceedings and claims, even if meritless, have in the past and could in the future result in unexpected and substantial costs to us. If we are unable to resolve or settle a matter, obtain necessary licenses on reasonable terms, reengineer products or processes to avoid infringement, provide a cost-effective remedy, or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take a charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, incur reputational damage, and our business, financial condition or results of operations could be harmed.

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

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

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

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

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

With the exception of orders placed under our LTSAs, we do not typically enter into long-term contracts with our non-distributor customers, and therefore we cannot be certain about future order levels from our customers. When we enter into customer contracts (other than under our LTSAs), the contracts are generally cancelable based on standard terms and conditions. Under our LTSAs, customers may cancel orders in the event of price increases. While we had approximately 112,000 customers, and our ten largest direct customers accounted for approximately 14% of our total revenue in the first nine months of fiscal 2025, and four of our top ten direct customers are contract manufacturers that perform manufacturing services for many customers, cancellation of customer contracts could have an adverse impact on our revenue and profits. For example, due to uncertainty related to the COVID-19 pandemic, we experienced an increase in order cancellations and requests to reschedule deliveries to future dates in the first quarter of fiscal 2021. Also, many of our customers felt the effects of slowing economic activity and increasing business uncertainty, and customer requests to push-out or cancel backlog and our accommodation of their requests increased in the fourth quarter of fiscal 2023 and continued in fiscal 2024 and fiscal 2025.

Certain customer contracts differ from our standard terms of sale due to the negotiating leverage held by the customer. For example, under certain contracts we have committed to supply products on scheduled delivery dates, or extended our obligations for liabilities such as warranties or indemnification for quality issues or intellectual property infringement. If we are unable to supply the customer as contractually required, the customer may incur additional production costs, lost revenues due to delays in their manufacturing schedule, or quality-related issues. We may be liable for costs and damages associated with customer claims, and we may be obligated to defend the customer against claims of intellectual property infringement and pay associated legal fees. While we try to minimize the number of contracts which contain such provisions, manage the risks of such liabilities, and set caps on our liability exposure, sometimes we are unable to do so. In order to win important designs, avoid losing business to competitors, maintain existing business, or be permitted to bid on new business, we have, and may in the future, have to agree to uncapped liability for such items as intellectual property infringement or product failure, or have to agree to liquidated damage provisions. This exposes us to risk of liability far exceeding the purchase price of the products sold under such contracts, the lifetime revenues we receive under such contracts, or potential consequential damages. Further, where we do not have negotiated customer contracts, our customer's order terms may govern the transaction and contain terms unfavorable to us. These risks could result in a material adverse impact on our results of operations and financial condition.

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

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

Certain of our software, as well as that of our customers, may be derived from "open source" software that is generally made available to the public by its authors. Open source software licenses impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public and/or license such derivative works under a particular type of license, rather than the forms of license we customarily use to protect our intellectual property. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to legally establish that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work if the license is terminated which could adversely impact our business and results of operations.

Governments and courts are considering new issues in intellectual property law with respect to works created by AI technology, which could result in changing and inconsistent intellectual property rights in development processes, procedures and technologies we create with AI technology, which could have a material adverse effect on our business.

Risks Related to Taxation, Laws and Regulations

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

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

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

A significant portion of our sales involve export and import activities. Our U.S.-manufactured products or products based on U.S. technology or U.S. software, or products incorporating U.S. content may be subject to laws and regulations that govern international trade, including but not limited to the Foreign Corrupt Practices Act, Export Administration Regulations (EAR), International Traffic in Arms Regulations, economic embargoes and trade sanctions against certain countries and parties, including those administered by the U.S. Departments of State, Commerce, and Treasury. Licenses or license exceptions are often required for the shipment of our products to certain countries. Our inability to timely obtain a license, for any reason, including a delay in license processing due to a federal government shutdown, or changes in government policies of approval or denial of licenses, could cause a delay in scheduled shipments which could have a material adverse impact on our revenue within the quarter of a shutdown, and in following quarters depending on the extent that license processing is delayed. Further, determination by a government that we have failed to comply with trade regulations or anti-bribery regulations can result in penalties which may include denial of export privileges, fines, penalties, and seizure of products, or loss of reputation, any of which could have a material adverse effect on our business, sales and earnings. A change in laws and regulations could restrict our ability to transfer product to previously permitted countries, customers, distributors or others. For example, in October 2022, the U.S. Commerce Department published a regulation that imposed restrictions on activities in or involving China, Hong Kong, and Macau related to advanced computing integrated circuits (ICs), advanced-node ICs, computers and other commodities that contain such ICs, certain semiconductor manufacturing items, and supercomputers. The regulation also expanded controls on transactions involving semiconductor manufacturing and semiconductor equipment manufacturing end-uses. Further, this regulation expanded the scope of foreign-produced items subject to license requirements under U.S. law and added 28 entities located in China to the U.S. Commerce Department Entity List. In November 2023, the U.S. Commerce Department added restrictions and export license requirements to end uses and product categories previously described in the October 2022 regulation. In addition, the U.S. Departments of Commerce, State, and Treasury have been adding parties to the restricted parties lists, and imposing prohibitions and export licensing requirements on transactions with them. The result is that there has been a slow-down in the processing of export license applications by the U.S. Government and an increased burden on us to conduct additional due diligence imposed by the October 2022 and November 2023 regulations, as well as by sanctions imposed on Russia for invading Ukraine. At this time, there has not been a material impact on our ability to obtain necessary licenses for exportation. A previous example occurred in fiscal 2020, when the U.S. Commerce Department effectively banned U.S. companies from selling products or transferring technology to certain Chinese companies, including Huawei and their related companies worldwide. In fiscal 2020, the U.S. Federal Acquisition Regulation prohibited U.S. governmental agencies from buying equipment incorporating covered telecommunications equipment, as a substantial component or critical technology, where the technology came from certain Chinese companies. In July 2020, this was expanded to prohibit U.S. governmental agencies from entering into a contract with any company that uses covered telecommunications equipment whether or not the Chinese technology is related to the procurement. The EAR also effectively prohibits sales of items for a “military end use,” to a "military end-user," or for a "military intelligence" end-user, or end-use to certain countries, such as Belarus, Burma, Cambodia, Cuba, China, Iran, North Korea, Russia, Syria and Venezuela. Any of the foregoing changes to the regulatory requirements could adversely impact our operational costs due to the administrative impacts of complying with these regulations and may limit those with whom we conduct business. Any one or more of these sanctions, future sanctions, a change in laws or regulations, or a prohibition on shipment of our products or transfer of our technology to significant customers could have a material adverse effect on our business, financial condition and results of operations.

The U.S. and other countries have levied tariffs and taxes on certain goods, implemented trade restrictions, and introduced national security protection policies. Trade tensions between the U.S. and China, have continued to escalate from 2018 to present, may escalate further in 2025, and include the U.S. increasing tariffs on Chinese origin goods and China increasing tariffs on U.S. origin goods. We previously took steps to mitigate the costs of these tariffs on our business by adjusting our operations and supply chain, but may be unable to mitigate the costs of additional tariffs. Although these tariff increases did not result in a material adverse impact on our operating costs in fiscal 2019 or fiscal 2020, they did reduce demand for our products during fiscal 2019 and fiscal 2020. Increased tariffs on our customers' products could adversely impact their sales, and increased tariffs on our products in comparison to those of our competitors could each result in lower demand for our products. Further, governments may impose restrictions on the sale to certain customers of our products, or any applications containing our products. For example, the Chinese government announced restrictions relating to certain sales of products containing certain products made by Micron, and they may direct companies within China to purchase Chinese-made products. Similar restrictions on our products or the products of our customers or suppliers could negatively impact our business and financial results. It is also possible that evolving U.S. export controls may encourage non-U.S. governments to request that our customers purchase from companies not subject to U.S. export controls, thereby harming our business, market position, and financial results. Excessive export controls increase the risk of investing in U.S. advanced semiconductor products, because by the time a new product is ready for market, it may be subject to new unilateral export controls restricting its sale. At the same time, such controls may increase investment in foreign competitors, which would be less likely to be restricted by U.S. controls.

Further changes in trade or national security protection policy, tariffs, additional taxes, restrictions on exports or other trade barriers, including those taken against the U.S. in retaliation for U.S. policies, may limit our ability to obtain equipment, components or raw materials (including rare earth minerals), limit our ability to produce products, increase our selling and/or manufacturing costs, decrease margins, reduce the competitiveness of our products, reduce our ability to sell products, or reduce our ability to have mergers and acquisitions approved by governmental agencies, any of which could have a material adverse effect on our business, results of operations or financial conditions.

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

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

In September 2021, we received a Statutory Notice of Deficiency (2007 to 2012 Notice) from the United States Internal Revenue Service (IRS) for fiscal 2007 through fiscal 2012. The disputed amounts largely relate to transfer pricing matters. In December 2021, we filed a petition in the U.S. Tax Court challenging the 2007 to 2012 Notice. In September 2023, we received a Revenue Agent Report (RAR) from the IRS for fiscal 2013 and fiscal 2016. In October 2023, we received a Statutory Notice of Deficiency (2014 to 2015 Notice) from the IRS for fiscal 2014 and fiscal 2015. The disputed amounts for fiscal 2013 to fiscal 2016 largely relate to transfer pricing matters. In December 2023, we filed a petition in the U.S. Tax Court challenging the 2014 to 2015 Notice.

In May 2023, we received a proposed income adjustment from the Malaysian Inland Revenue Board (IRB) for fiscal 2020. In December 2023, we received a Notice of Assessment from the IRB asserting the same proposed income adjustment. If the adjustment is upheld by the highest court that has jurisdiction over this matter in Malaysia, it could result in income taxes and penalties up to $410.0 million. The disputed amounts largely relate to the characterization of certain assets. Depending on the outcome of the IRB audit, we may need to adjudicate this matter in Malaysia, and if we do, we may be required to pay the assessment and then, upon a series of favorable court rulings, request a refund of the amount. The timing of adjudicating this matter is uncertain but could occur in the next 12 months.

The ultimate outcome of disputes of this nature is uncertain, and if the IRS and IRB were to prevail on their assertions, the assessed tax, penalties, and deficiency interest could have a material adverse impact on our financial position, results of operations or cash flows.

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

We are a U.S.-based multinational company subject to tax in many U.S. and foreign jurisdictions. Our income tax obligations could be affected by many factors, including changes to our operating structure, intercompany arrangements and tax planning strategies.

Our income tax expense is computed based on tax rates at the time of the respective financial period. Our future effective tax rates, financial condition and results from operations could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in the tax rules and regulations, including those that align with the Organisation for Economic Co-operation and Development's Base Erosion Profit Shifting recommendations, or the interpretation of tax rules and regulations in the jurisdictions in which we do business by changes in the valuation of our deferred tax assets, changes in the geographic mix of our earnings among jurisdictions, challenges by tax authorities to our tax positions and intercompany transfer pricing arrangements, failure to meet performance obligations with respect to tax incentive agreements, fluctuations in foreign currency exchange rates, adverse resolution of audits and examinations of previously filed tax returns.

Our business, financial condition and operating results may be adversely impacted by policies implemented globally by the current or future administrations.

The new 2025 administration in the U.S. and administrations in other global jurisdictions in which we operate, have indicated possible significant legislative and policy changes in areas including but not limited to tax, trade, labor, and the environment. If implemented, these changes could increase our effective tax rate, decrease our revenue and increase our selling and/or manufacturing costs, which could have a material adverse effect on our business, results of operations or financial conditions. Changes in tax policy, trade regulations or other matters, and any uncertainty surrounding the scope or timing of such changes, could negatively impact the stock market, and reduce the trading price of our stock or otherwise impact our business. For example, in February 2022, the U.S. began implementing widescale sanctions against Russia due to

Russia's invasion of Ukraine. Sanctions against Belarus and certain Ukrainian regions were later implemented. Because the actions by Russia against Ukraine are in conflict with our Guiding Values, we chose to cease shipments into Russia and Belarus, and we will continue to comply with applicable U.S. sanctions regarding Ukraine. While sales of our products into these regions, and to customers that sell into these regions, have been negatively impacted, at this time, we have not experienced a material adverse impact on our revenue. Retaliatory acts by Russia in response to the sanctions could include cyber-attacks, sanctions, or other actions that could disrupt the economy. As a result of the foregoing risks or similar risks, the imposition of sanctions could have a material adverse effect on our business, results of operations or financial condition.

New technology trends, such as AI, require us to keep pace with evolving regulations and industry standards. In the U.S., the EU, and China, there are various current and proposed regulatory frameworks relating to the use of AI in products and services. We expect that the legal and regulatory environment relating to emerging technologies such as AI will continue to develop and could increase the cost of doing business, and create compliance risks and potential liability, all of which may have a material adverse effect on our financial condition and results of operations.

We are subject to stringent environmental, climate change and other regulations, which may force us to incur significant expenses and impact our operations.

We must comply with federal, state, local and foreign governmental regulations related to the use, storage, emissions, discharge and disposal of hazardous substances used in our products and manufacturing processes, or that are the result of our manufacturing operations, such as greenhouse gases. We must also comply with rules and regulations regarding limiting greenhouse gas emissions, public reporting of environmental metrics such as greenhouse gas emissions and hazardous substances, and obtain third-party assurance of greenhouse gas reporting. Regulations could require us to change manufacturing processes, substitute materials which may cost more or be less available, obtain new permits and undertake other costly activities.

Our failure to comply, or the failure of entities that we have acquired over time to have complied, with regulations could result in significant fines, litigation or administrative actions by regulators or others, liability for clean-up, criminal and civil liabilities, import/export restrictions, reduction or suspension of production, cessation of operations or future liabilities. Restrictions on emissions could result in significant costs such as the need for additional equipment, higher energy costs, carbon taxes, and emission cap and trade programs, and could also result in reduction or suspension of production, or even cessation of operations. Such regulations have required us in the past, and could require us in the future, to incur significant expenses to comply with such regulations. Our failure to control the use of, or adequately restrict the discharge of, hazardous substances could not only impact the health of our employees, customers and communities in which we operate, but could also impact our ability to operate. Such failure could also restrict our ability to ship certain products to certain countries, require us to modify our products, shipping materials or logistics, or require us to incur other significant costs and expenses. Environmental laws continue to expand with a focus on reducing or eliminating hazardous substances in electronic products and shipping materials. Future environmental regulations could require us to close or reduce production at certain facilities, reengineer certain of our existing products and may prevent us or make it more expensive for us to manufacture, sell and ship our products. For example, in Colorado, Regulation 27 requires companies operating in Colorado to significantly reduce greenhouse gas emissions in a short timeframe. Because we have contractual obligations to certain customers to assess the impact that manufacturing process changes may have on the products that we provide to such customers, we have to take a measured approach when implementing changes to our facilities, manufacturing processes, and manufacturing inputs. If we are unable to implement the necessary abatement plan, we may be required to ramp down our existing operations significantly or risk noncompliance with the rule. The magnitude of the penalties that may be imposed for non-compliance is not currently known but could include significant monetary penalties and orders to reduce or cease production.

In March 2022, the SEC proposed a rule entitled Enhancement and Standardization of Climate-Related Disclosures for Investors which it then adopted March 6, 2024. However, on April 4, 2024, the SEC announced that it was delaying the implementation of the rule pending challenge in the U.S. Eighth Circuit Court. While the rule is not yet implemented, if it were to be implemented in its current form, we would incur significant additional costs of compliance due to the need for expanded data collection, analysis, and certification. Further, certain elements of the proposed rule, such as mandatory third-party verification of emissions, may be difficult to comply with in the proposed required timeframe as there may be an insufficient number of qualified third-party verification entities to meet demand.

In addition, the number and complexity of laws and customer requirements focused on the energy efficiency of electronic products, the recycling of electronic products, the reduction of chemicals used in and to manufacture electronic products, and the reduction in the amount of packing materials and the increase in the required recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may have insufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may have to write off inventory if we hold unsaleable inventory as a result of changes to regulations. We expect these risks to continue. These requirements may increase our own costs, as well as those passed on to us by our supply chain.

Sustained adverse climate change poses risks that could harm our results of operations.

Voluntary actions we may take or have taken as part of our ESG initiatives could require us to limit emissions, change manufacturing processes, substitute materials which may cost more or be less available, fund offset projects, or undertake other costly activities. Voluntary restrictions on emissions could result in significant costs such as the need for additional equipment, higher energy costs, carbon taxes, and emission cap and trade programs. The cost of compliance with such voluntary efforts could restrict our manufacturing operations, increase our costs, and have an adverse effect on our operating results.

Sustained adverse changes in climate could have a direct adverse economic impact on us due to the effects of extreme weather and climate events on our production facilities, our supply chain and customers. Utility shortages, higher costs of utilities, and reduced availability of water could disrupt our operations as well as those of our customers and suppliers. Certain of our operations are located in arid or tropical regions, which some experts believe may become vulnerable to more frequent fires, storms, severe floods and droughts. While our business recovery plans are intended to allow us to recover from natural disasters or other disruptive events, our plans may not protect us from all events.

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

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released investigation, and disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries. We have filed a Form SD with the SEC regarding such matters annually since June 2, 2014. Other countries are considering similar regulations. If we cannot certify that our supply chain is free from the risk of irresponsible sourcing, customers and others may demand that we change the sourcing of materials used in the manufacture of our products, even if the costs for compliant materials significantly increases or availability is limited. If we change materials or suppliers, there will likely be costs associated with qualifying new suppliers and production capacity, delivery times and quality could be negatively impacted. Our relationships with customers, suppliers and stockholders may be adversely affected if we are unable to certify that our products are free from the risk of irresponsible sourcing. We have incurred, and expect in the future to incur, additional costs associated with complying with these disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. We may be unable to satisfy those that require that all of the components of our products be certified as conflict free in a materially different manner than advocated by the Responsible Minerals Initiative or the Dodd-Frank Wall Street Reform and Consumer Protection Act. If we are unable to meet customer requirements, customers may disqualify us as a supplier, resulting in a permanent or temporary loss of sales to such customer or a reduction in purchases from us, and we may have to write off inventory if it cannot be sold.

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

Failure to meet ESG expectations, standards or disclosure requirements or achieve our corporate responsibility goals, could adversely affect our business, results of operations, financial condition, or stock price.

In recent years, there has been an increased focus on corporate responsibility matters, including greenhouse gas emissions and climate-related risks, renewable energy, water stewardship, waste management, data privacy, cybersecurity, trade controls, diversity, equality and inclusion, responsible sourcing and supply chain, use of products for illegal or unethical purposes, human rights, and social responsibility. We are committed to corporate responsibility and actively manage these issues including through our guiding values and our internal policies. As an example, since we do not support the actions of Russia against Ukraine, in March 2022 we stopped selling products to customers and distributors located in Russia and Belarus. However, we have been made aware that there are entities in Russia that indirectly obtained our products after March 2022 despite the preventative measures we took and continue to take. Though we continue to improve our processes and procedures to prevent the unauthorized flow of our products, our actions have not been fully successful. We operate in an extensive, ever-changing global supply chain, an expectation of complete traceability of standard semiconductor products to every end use and prevention of product misuse and diversion is unachievable. Thus, despite our efforts, our products may be used for illegal or objectionable applications and third parties may engage in conduct that we do not support or condone.

Also, we have publicly announced environmental goals including those related to greenhouse gas emissions reduction, achieving net zero carbon emissions and renewable energy usage, which we may refine or expand further in the future. These goals reflect our current plans and aspirations and are not guarantees that we will be able to achieve them. These goals could expose us to heightened scrutiny and financial, legal, reputational, operational, compliance, and other risks, including lost customer opportunities, which could negatively impact us. Further, any failure to set or achieve corporate responsibility initiatives that meet our stakeholders' evolving expectations could also negatively impact us.

In addition, we are or expect to become subject to various new or proposed climate-related and other sustainability laws and regulations, including, for example, the state of California's new climate change disclosure requirements, the EU's new Corporate Sustainability Reporting Directive and climate-change disclosure requirements from the SEC. Compliance with such laws and regulations, as well as the overall increased focus and scrutiny from the SEC and other regulators, investors, customers, vendors, employees, and other stakeholders concerning ESG and climate matters, could impose additional costs on us and expose us to new risks, including resulting in changes to our current ESG goals.

Evolving stakeholder expectations, voluntary and required reporting regimes that are not harmonized and continue to change, and our efforts to manage these issues, report on them, and accomplish our goals, present numerous operational, regulatory, reputational, financial, legal, and other risks, any of which could have a material adverse impact, including on our reputation and stock price. It is also possible that government, customers, investors and other stakeholders might not be satisfied with our policies, programs, goals, performance and related disclosures, or the speed of their adoption, implementation and measurable success, or that we have adopted such policies, programs and commitments.

Such risks and uncertainties include:

- reputational harm, including damage to our relationship with customers, supplies, investors, governments, or other stakeholders;
- we may lose customers who choose not to do business with us, or we may choose to discontinue or restrict business with certain customers due to our policies;
- liabilities or penalties associated with inadequate processes to collect, audit, or disclose information;
- adverse impacts on our ability to sell and manufacture products;
- increased risk of litigation, investigations, or regulatory enforcement action;
- unfavorable ESG ratings or investor sentiment;
- diversion of resources and increased costs to control, assess, and report on ESG metrics;
- our ability to achieve our goals within announced timeframes;
- increased costs and resources to monitor, report and achieve our goals;
- unforeseen operational and technological difficulties;
- access to and increased cost of capital; and
- adverse impacts on our stock price.

Any failure, or perceived failure, to meet evolving stakeholder expectations or industry standards, or achieve our corporate responsibility goals could have an adverse effect on our business, results of operations, financial condition, reputation, or stock price.

Risks Related to Capitalization and Financial Markets

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

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

- global economic and financial uncertainty due to changes in interest rates, persistent inflation, instability in the banking sector, public health concerns or other factors;
- quarterly variations in our operating results or the operating results of other technology companies;
- changes in our financial guidance or our failure to meet such guidance;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- general conditions in the semiconductor industry;
- the amount and timing of repurchases of shares of our common stock;
- our ability to realize the expected benefits of our completed or future acquisitions; and

- actual or anticipated announcements of technical innovations or new products by us or our competitors.

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

The amount and timing of our share repurchases may fluctuate in response to a variety of factors.

The amount, timing, and execution of repurchases of shares of our common stock may fluctuate based on the share price of our common stock, general business and market conditions, tax regulations impacting share repurchases and other factors including our operating results, level of cash flow, capital expenditures and dividend payments. Although our Board of Directors has authorized share repurchases of up to $4.00 billion, of which $1.56 billion is still available, the authorization does not obligate us to acquire any particular amount of shares. We cannot guarantee that our share repurchase authorization will be fully consummated or that it will enhance long-term stockholder value. The repurchase authorization may be suspended or discontinued at any time at our discretion and may affect the trading price of our common stock and increase volatility. We did not repurchase any shares in the December 2024 quarter.

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

As of December 31, 2024, the principal amount of our outstanding indebtedness was $6.79 billion. At December 31, 2024, we had no outstanding borrowings under our Revolving Credit Facility which provides up to $2.75 billion of revolving loan commitments that terminate in 2026 and $1.30 billion in outstanding principal amount of our Commercial Paper. At December 31, 2024, we had $4.20 billion in aggregate principal amount of Senior Notes and $1.29 billion in aggregate principal of Convertible Debt outstanding.

With respect to such balance of Senior Notes, our 4.250% 2025 Notes in the principal amount of $1.20 billion matures on September 1, 2025, and we intend to finance the repayment of such notes using available borrowings under our Revolving Credit Facility or our Commercial Paper program. Since interest rates have increased since we issued our 4.250% 2025 Notes, we expect our interest expense will increase if we refinance such notes using our Revolving Credit Facility or our Commercial Paper Program or other instruments. Also, if we refinance such fixed rate notes with variable rate debt, changes in interest rates will have a more significant impact on our interest expense in future periods. There can be no assurance that we will be able to refinance our current or future debt on reasonable terms, if at all.

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

Our ability to make scheduled payments of principal, interest, or to refinance our indebtedness, including our outstanding Senior Notes, Convertible Debt, and Commercial Paper, depends on our future performance, which is subject to economic, competitive and other factors. Our business may not continue to generate sufficient cash flow to service our debt and to fund capital expenditures, dividend payments, share repurchases or acquisitions. If we are unable to generate such cash flow, we may be required to undertake alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on onerous or highly dilutive terms. Recently, we have used borrowings to finance a portion of our quarterly dividend payments and we may continue to do so in future periods. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. Our Senior Notes and Commercial Paper are rated by certain major credit rating agencies. These credit ratings impact our cost of borrowing and our ability to access the capital markets and are based on our financial performance and financial metrics including debt levels. There is no assurance that we will maintain our current credit ratings. A downgrade of our credit rating by a major credit rating agency could result in increased borrowing costs and could adversely affect our ability to access the debt markets to refinance our existing debt or finance future debt. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of opportunities and could adversely affect our financial condition and results of operations.

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

The conversion of some or all of our outstanding Convertible Debt will dilute the ownership interest of our existing stockholders to the extent we deliver common stock upon conversion of such debt. Following our irrevocable settlement election made on April 1, 2022, upon conversion, we are required to satisfy our conversion obligation with respect to such converted Convertible Debt by delivering cash equal to the principal amount of such converted Convertible Debt and cash and shares of common stock or any combination, at our option, with respect to any conversion value in excess thereof (i.e., the conversion spread). There would be no adjustment to the numerator in the net income per common share computation for the cash settled portion of the Convertible Debt as that portion of the debt instrument will always be settled in cash. The conversion spread will be included in the denominator for the computation of diluted net income per common share. Any sales in the public market of any common stock issuable upon conversion of our Convertible Debt could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Debt may encourage short selling by market participants because the conversion of the Convertible Debt could be used to satisfy short positions, or anticipated conversion of the Convertible Debt into shares of our common stock could depress the price of our common stock.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

No officers or directors, as defined in Rule 16a-1(f), adopted, modified and/or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as defined in Item 408 of Regulation S-K, during the last fiscal quarter.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation of Microchip Technology Incorporated	8-K	000-21184	3.1	August 26, 2021	
3.2	Amended and Restated Bylaws effective August 22, 2023	8-K	000-21184	3.1	August 23, 2023	
4.1	Second Supplemental Indenture, dated as of December 16, 2024, among Microchip Technology Incorporated, the subsidiary guarantors named therein and Computershare Trust Company, National Association, as trustee	8-K	000-21184	4.1	December 16, 2024	
4.2	Form of Global Note for the 4.900% Senior Notes due 2028 (included as Exhibit A to Exhibit 4.1)	8-K	000-21184	4.2	December 16, 2024	
4.3	Form of Global Note for the 5.050% Senior Notes due 2030 (included as Exhibit B to Exhibit 4.1)	8-K	000-21184	4.3	December 16, 2024	
10.1	Second Amendment, dated as of November 8, 2024, by and among Microchip Technology Incorporated, the subsidiary guarantors party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent	8-K	000-21184	10.1	November 12, 2024	
10.2	Retirement Agreement and Release, dated as of November 22, 2024, by and between Microchip Technology Incorporated and Ganesh Moorthy					X
22.1	Subsidiary Guarantors and Issuers of Guaranteed Securities					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended					X
32*	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document or included within the Exhibit 101 attachments					X

*This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

MICROCHIP TECHNOLOGY INCORPORATED

Date: February 6, 2025

By: /s/ J. Eric Bjornholt

J. Eric Bjornholt

Senior Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)