

**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 June 30, 2020

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

(State or Other Jurisdiction of Incorporation or Organization)

86-0629024

(IRS Employer Identification No.)

2355 W. Chandler Blvd., Chandler, AZ 85224-6199
(480) 792-7200

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's
Principal Executive Offices)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check One)

Yes ☐ No ☒

Shares Outstanding of Registrant's Common Stock

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>	
Common Stock, \$0.001 par value	MCHP	NASDAQ Stock Market LLC (Nasdaq Global Select Market)	July 29, 2020 252,451,515 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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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)

	June 30, 2020	March 31, 2020
ASSETS		
Cash and cash equivalents	\$ 378.2	\$ 401.0
Short-term investments	2.0	2.0
Accounts receivable, net	894.3	934.0
Inventories	657.2	685.7
Other current assets	203.3	194.5
Total current assets	2,135.0	2,217.2
Property, plant and equipment, net	844.0	876.1
Goodwill	6,664.8	6,664.8
Intangible assets, net	5,486.8	5,702.3
Long-term deferred tax assets	1,639.1	1,748.5
Other assets	258.4	217.2
Total assets	\$ 17,028.1	\$ 17,426.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 211.1	\$ 246.8
Accrued liabilities	778.4	781.8
Current portion of long-term debt	1,596.3	608.8
Total current liabilities	2,585.8	1,637.4
Long-term debt	7,730.0	8,873.4
Long-term income tax payable	681.1	668.4
Long-term deferred tax liability	112.3	318.5
Other long-term liabilities	417.6	342.9
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value; authorized 450,000,000 shares; 265,047,572 shares issued and 252,450,046 shares outstanding at June 30, 2020; 258,391,231 shares issued and 245,325,643 shares outstanding at March 31, 2020	0.3	0.2
Additional paid-in capital	2,542.3	2,675.1
Common stock held in treasury: 12,597,526 shares at June 30, 2020; 13,065,588 shares at March 31, 2020	(485.8)	(500.6)
Accumulated other comprehensive loss	(21.1)	(21.6)
Retained earnings	3,465.6	3,432.4
Total stockholders' equity	5,501.3	5,585.5
Total liabilities and stockholders' equity	\$ 17,028.1	\$ 17,426.1

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,	
	2020	2019
Net sales	\$ 1,309.7	\$ 1,322.6
Cost of sales ⁽¹⁾	511.4	507.4
Gross profit	798.3	815.2
Research and development ⁽¹⁾	198.0	219.1
Selling, general and administrative ⁽¹⁾	146.3	167.9
Amortization of acquired intangible assets	235.4	248.5
Special charges and other, net	0.3	8.1
Operating expenses	580.0	643.6
Operating income	218.3	171.6
Other income (expense):		
Interest income	0.3	0.7
Interest expense	(99.1)	(132.6)
Loss on settlement of debt	(26.8)	(1.9)
Other (loss) income, net	(3.2)	2.7
Income before income taxes	89.5	40.5
Income tax benefit	(34.1)	(10.2)
Net income	\$ 123.6	\$ 50.7
Basic net income per common share	\$ 0.50	\$ 0.21
Diluted net income per common share	\$ 0.48	\$ 0.20
Dividends declared per common share	\$ 0.3675	\$ 0.3655
Basic common shares outstanding	247.7	237.8
Diluted common shares outstanding	257.8	253.9
⁽¹⁾ Includes share-based compensation expense as follows:		
Cost of sales	\$ 6.4	\$ 4.9
Research and development	\$ 20.5	\$ 19.5
Selling, general and administrative	\$ 15.5	\$ 16.3

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,	
	2020	2019
Net income	\$ 123.6	\$ 50.7
Components of other comprehensive income (loss):		
Defined benefit plans:		
Actuarial losses related to defined benefit pension plans, net of tax effect	(0.8)	(0.8)
Reclassification of realized transactions, net of tax effect	0.3	0.2
Change in net foreign currency translation adjustment	1.0	0.3
Other comprehensive income (loss), net of tax effect	0.5	(0.3)
Comprehensive income	\$ 124.1	\$ 50.4

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 123.6	\$ 50.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	292.8	307.1
Deferred income taxes	(49.4)	(16.8)
Share-based compensation expense related to equity incentive plans	42.4	40.7
Loss on settlement of debt	26.8	1.9
Amortization of debt discount	25.3	29.9
Amortization of debt issuance costs	4.8	4.2
Gains on sale of assets	(0.9)	—
Impairment of intangible assets	—	0.5
Gains on available-for-sale investments and marketable equity securities, net	(0.2)	(0.8)
Other non-cash adjustment	0.5	(0.1)
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Decrease (increase) in accounts receivable	39.7	(56.2)
Decrease (increase) in inventories	24.9	(20.5)
(Decrease) increase in accounts payable and accrued liabilities	(46.6)	49.7
Change in other assets and liabilities	1.4	14.4
Change in income tax payable	16.7	(24.1)
Net cash provided by operating activities	501.8	380.6
Cash flows from investing activities:		
Investments in other assets	(7.6)	(2.6)
Proceeds from sale of assets	0.2	0.2
Capital expenditures	(9.5)	(23.9)
Net cash used in investing activities	(16.9)	(26.3)
Cash flows from financing activities:		
Payments on settlement of convertible debt	(1,027.2)	—
Proceeds from issuance of senior notes	2,182.0	—
Repayment of bridge loan facility	(615.0)	—
Repayments of term loan facility	(17.8)	(188.0)
Proceeds from borrowings on revolving loan under credit facility	1,238.0	204.0
Repayments of revolving loan under credit facility	(2,171.9)	(273.5)
Deferred financing costs	(5.2)	—
Payment of cash dividends	(90.4)	(87.1)
Proceeds from sale of common stock	11.0	7.3
Tax payments related to shares withheld for vested restricted stock units	(11.0)	(11.4)
Capital lease payments	(0.2)	(0.2)
Net cash used in financing activities	(507.7)	(348.9)
Net (decrease) increase in cash and cash equivalents	(22.8)	5.4
Cash and cash equivalents, and restricted cash at beginning of period	401.0	428.6
Cash and cash equivalents, and restricted cash at end of period	\$ 378.2	\$ 434.0
Supplemental disclosure of cash flow information		
Restricted cash	\$ —	\$ 38.8

See accompanying notes to condensed consolidated financial statements

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

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2019	253.2	\$ 2,679.8	15.6	\$ (582.2)	\$ (20.7)	\$ 3,210.6	\$ 5,287.5
Net income	—	—	—	—	—	50.7	50.7
Other comprehensive loss	—	—	—	—	(0.3)	—	(0.3)
Adoption of ASU 2018-02, cumulative adjustment	—	—	—	—	(1.3)	1.3	—
Proceeds from sales of common stock through employee equity incentive plans	0.5	7.3	—	—	—	—	7.3
Restricted stock unit and stock appreciation right withholdings	(0.1)	(11.4)	—	—	—	—	(11.4)
Treasury stock used for new issuances	(0.4)	(13.8)	(0.4)	13.8	—	—	—
Share-based compensation	—	41.6	—	—	—	—	41.6
Cash dividend	—	—	—	—	—	(87.1)	(87.1)
Balance at June 30, 2019	<u>253.2</u>	<u>\$ 2,703.5</u>	<u>15.2</u>	<u>\$ (568.4)</u>	<u>\$ (22.3)</u>	<u>\$ 3,175.5</u>	<u>\$ 5,288.3</u>
Balance at March 31, 2020	258.4	\$ 2,675.3	13.1	\$ (500.6)	\$ (21.6)	\$ 3,432.4	\$ 5,585.5
Net income	—	—	—	—	—	123.6	123.6
Other comprehensive income	—	—	—	—	0.5	—	0.5
Proceeds from sales of common stock through employee equity incentive plans	0.6	11.0	—	—	—	—	11.0
Restricted stock unit and stock appreciation right withholdings	(0.1)	(11.0)	—	—	—	—	(11.0)
Treasury stock used for new issuances	(0.5)	(14.8)	(0.5)	14.8	—	—	—
Shares issued to settle convertible debt	6.6	651.5	—	—	—	—	651.5
Settlement of convertible debt	—	(810.7)	—	—	—	—	(810.7)
Share-based compensation	—	41.3	—	—	—	—	41.3
Cash dividend	—	—	—	—	—	(90.4)	(90.4)
Balance at June 30, 2020	<u>265.0</u>	<u>\$ 2,542.6</u>	<u>12.6</u>	<u>\$ (485.8)</u>	<u>\$ (21.1)</u>	<u>\$ 3,465.6</u>	<u>\$ 5,501.3</u>

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 generally accepted accounting principles in the United States of America (US GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020. The results of operations for the three months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2021 or for any other period.

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On April 1, 2020, the Company adopted the following Accounting Standards Updates, none of which had a material impact on its consolidated financial statements.

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

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04-*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions to US GAAP for applying guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The guidance is effective upon issuance and may be adopted on any date on or after March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

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

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 table represents net sales and gross profit for each segment for the three months ended June 30, 2020 (in millions):

	Three Months Ended June 30, 2020	
	Net Sales	Gross Profit
Semiconductor products	\$ 1,287.8	\$ 776.4
Technology licensing	21.9	21.9
Total	<u>\$ 1,309.7</u>	<u>\$ 798.3</u>

The following table represents net sales and gross profit for each segment for the three months ended June 30, 2019 (in millions):

	Three Months Ended June 30, 2019	
	Net Sales	Gross Profit
Semiconductor products	\$ 1,304.0	\$ 796.6
Technology licensing	18.6	18.6
Total	<u>\$ 1,322.6</u>	<u>\$ 815.2</u>

Note 4. Net Sales

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

	Three Months Ended June 30,	
	2020	2019
Microcontrollers	\$ 716.4	\$ 708.3
Analog, interface, mixed signal and timing products	370.2	386.4
Field-programmable gate array products	86.8	91.0
Licensing, memory and other	136.3	136.9
Total net sales	<u>\$ 1,309.7</u>	<u>\$ 1,322.6</u>

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

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

	Three Months Ended June 30,	
	2020	2019
Distributors	\$ 658.9	\$ 665.1
Direct customers	628.9	638.9
Licensees	21.9	18.6
Total net sales	\$ 1,309.7	\$ 1,322.6

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 and Smartbits® one time programmable NVM technologies. All of the contract types listed in the table above are included in the Company's semiconductor product segment with the exception of licenses, which is included in the technology licensing segment.

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

Note 5. Net Income Per Common Share

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

	Three Months Ended June 30,	
	2020	2019
Net income	\$ 123.6	\$ 50.7
Basic weighted average common shares outstanding	247.7	237.8
Dilutive effect of stock options and RSUs	2.9	3.7
Dilutive effect of 2015 Senior Convertible Debt	7.2	12.4
Dilutive effect of 2017 Senior Convertible Debt	—	—
Dilutive effect of 2017 Junior Convertible Debt	—	—
Diluted weighted average common shares outstanding	257.8	253.9
Basic net income per common share	\$ 0.50	\$ 0.21
Diluted net income per common share	\$ 0.48	\$ 0.20

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

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options and the assumed vesting of outstanding RSUs. Weighted average common shares exclude the effect of option shares which are not dilutive. There were no anti-dilutive option shares for each of the three months ended June 30, 2020 and 2019.

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Diluted weighted average common shares outstanding for the three months ended June 30, 2020 and 2019 includes 7.2 million shares and 12.4 million shares, respectively, issuable upon the exchange of the Company's 2015 Senior Convertible Debt (as defined below). There were no shares issuable upon the exchange of the Company's 2017 Senior Convertible Debt (as defined below) or the Company's 2017 Junior Convertible Debt (as defined below). The convertible debt has no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the Company intends to settle the principal amount of the debentures in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The following is the weighted average conversion price per share used in calculating the dilutive effect (see Note 6 for details on the convertible debt):

	Three Months Ended June 30,	
	2020	2019
2015 Senior Convertible Debt	\$ 61.21	\$ 62.18
2017 Senior Convertible Debt	\$ 95.45	\$ 96.96
2017 Junior Convertible Debt	\$ 93.77	\$ 95.26

Note 6. Debt

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

	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance ⁽¹⁾	June 30, 2020	March 31, 2020
<i>Senior Secured Indebtedness</i>					
Revolving Credit Facility				\$ 1,454.6	\$ 2,388.5
Term Loan Facility				1,705.7	1,723.5
Bridge Loan Facility				—	615.0
2023 Notes, maturing June 1, 2023 ("4.333% 2023 Notes")	4.333%	4.7%		1,000.0	1,000.0
2021 Notes, maturing June 1, 2021 ("3.922% 2021 Notes")	3.922%	4.5%		1,000.0	1,000.0
2023 Notes, maturing September 1, 2023 ("2.670% 2023 Notes")	2.670%	2.8%		1,000.0	—
<i>Senior Unsecured Indebtedness</i>					
2025 Notes, maturing September 1, 2025 ("4.250% 2025 Notes")	4.250%	4.6%		1,200.0	—
Total Senior Indebtedness				7,360.3	6,727.0
<i>Senior Subordinated Convertible Debt - Principal Outstanding</i>					
2017 Senior Convertible Debt, maturing February 15, 2027 ("2017 Senior Convertible Debt")	1.625%	6.0%	\$1,085.8	1,426.1	2,070.0
2015 Senior Convertible Debt, maturing February 15, 2025 ("2015 Senior Convertible Debt")	1.625%	5.9%	\$604.2	726.7	1,110.0
<i>Junior Subordinated Convertible Debt - Principal Outstanding</i>					
2017 Junior Convertible Debt, maturing February 15, 2037 ("2017 Junior Convertible Debt")	2.250%	7.4%	\$321.1	686.3	686.3
Total Convertible Debt				2,839.1	3,866.3
Gross long-term debt including current maturities				10,199.4	10,593.3
Less: Debt discount ⁽²⁾				(815.0)	(1,043.2)
Less: Debt issuance costs ⁽³⁾				(58.1)	(67.9)
Net long-term debt including current maturities				9,326.3	9,482.2
Less: Current maturities ⁽⁴⁾				(1,596.3)	(608.8)
Net long-term debt				\$ 7,730.0	\$ 8,873.4

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

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

	June 30, 2020	March 31, 2020
Bridge Loan Facility	\$ —	\$ (3.1)
4.333% 2023 Notes	(3.2)	(3.5)
3.922% 2021 Notes	(1.7)	(2.1)
2.670% 2023 Notes	(2.9)	—
4.250% 2025 Notes	(14.8)	—
2017 Senior Convertible Debt	(337.0)	(504.2)
2015 Senior Convertible Debt	(120.6)	(192.9)
2017 Junior Convertible Debt	(334.8)	(337.4)
Total unamortized discount	\$ (815.0)	\$ (1,043.2)

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

	June 30, 2020	March 31, 2020
Revolving Credit Facility	\$ (13.5)	\$ (14.6)
Term Loan Facility	(13.9)	(14.6)
Bridge Loan Facility	—	(3.1)
4.333% 2023 Notes	(7.1)	(7.7)
3.922% 2021 Notes	(3.7)	(4.8)
2.670% 2023 Notes	(1.7)	—
4.250% 2025 Notes	(2.0)	—
2017 Senior Convertible Debt	(8.7)	(13.0)
2015 Senior Convertible Debt	(4.4)	(7.0)
2017 Junior Convertible Debt	(3.1)	(3.1)
Total debt issuance costs	\$ (58.1)	\$ (67.9)

(4) As of June 30, 2020, current maturities consist of the liability component of the 2015 Senior Convertible Debt, as the notes were convertible and the 3.922% 2021 Notes which are due June 1, 2021. As of March 31, 2020, current maturities included the Bridge Loan Facility (as defined below).

Expected maturities relating to the Company's debt obligations as of June 30, 2020 are as follows (in millions):

Fiscal year ending March 31,	Expected Maturities
2021	\$ —
2022	1,000.0
2023	—
2024	3,454.6
2025	726.7
Thereafter	5,018.1
Total	\$ 10,199.4

Ranking of Convertible Debt - The Senior Subordinated Convertible Debt and Junior Subordinated Convertible Debt (collectively, the Convertible Debt) are unsecured obligations which are subordinated in right of payment to the amounts outstanding under the Company's Revolving Credit Facility, Term Loan Facility, Bridge Loan Facility, 4.333% 2023 Notes, 3.922% 2021 Notes, 2.670% 2023 Notes, and 4.250% 2025 Notes (collectively, the Senior Indebtedness). The Junior Subordinated Convertible Debt is expressly subordinated in right of payment to any existing and future senior debt of the

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Company (including the Senior Indebtedness, and the Senior Subordinated Convertible Debt) and is structurally subordinated in right of payment to the liabilities of the Company's subsidiaries. The Senior Subordinated Convertible Debt is subordinated to the Senior Indebtedness; ranks senior to the Company's indebtedness that is expressly subordinated in right of payment to it, including the Junior Subordinated Convertible Debt; ranks equal in right of payment to any of the Company's unsubordinated indebtedness that does not provide that it is senior to the Senior Subordinated Convertible Debt; ranks junior in right of payment to any of the Company's secured and unsecured unsubordinated indebtedness to the extent of the value of the assets securing such indebtedness; and is structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

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

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

	Conversion Rate	Dividend adjusted rates as of June 30, 2020			Maximum Conversion Rate
		Approximate Conversion Price		Incremental Share Factor	
2017 Senior Convertible Debt ⁽¹⁾	10.5000	\$	95.24	5.2500	14.9625
2015 Senior Convertible Debt ⁽¹⁾	16.3740	\$	61.07	8.1870	22.9236
2017 Junior Convertible Debt ⁽¹⁾	10.6875	\$	93.57	5.3438	14.9625

⁽¹⁾ As of June 30, 2020, the 2017 Senior Convertible Debt and the 2017 Junior Convertible Debt were not convertible. As of June 30, 2020, the holders of the 2015 Senior Convertible Debt have the right to convert their notes between July 1, 2020 and September 30, 2020 because the Company's common stock price has exceeded the Conversion Price by 130% for the specified period of time during the quarter ended June 30, 2020. As of June 30, 2020, the adjusted conversion rate for the 2015 Senior Convertible Debt would be increased to 19.8131 shares of common stock per \$1,000 principal amount of notes based on the closing common stock price of \$105.31 to include an additional maximum incremental share rate per the terms of the indenture. As of June 30, 2020, the 2017 Senior Convertible Debt, 2015 Senior Convertible Debt and 2017 Junior Convertible Debt had a value if converted above par of \$226.2 million, \$789.5 million and \$129.2 million, respectively.

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

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Interest expense consists of the following (in millions):

	Three Months Ended June 30,	
	2020	2019
Debt issuance amortization	\$ 4.1	\$ 3.3
Debt discount amortization	1.5	0.7
Interest expense	52.7	78.7
Total interest expense on Senior Indebtedness	58.3	82.7
Debt issuance amortization	0.7	0.9
Debt discount amortization	23.8	29.2
Coupon interest expense	15.3	19.3
Total interest expense on Convertible Debt	39.8	49.4
Other interest expense	1.0	0.5
Total interest expense	\$ 99.1	\$ 132.6

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 6.6 years, 4.6 years, and 16.6 years for the 2017 Senior Convertible Debt, 2015 Senior Convertible Debt and 2017 Junior Convertible Debt, respectively.

In June 2020, the Company used a portion of the proceeds from the issuance of the 2.670% 2023 Notes and the 4.250% 2025 Notes (as further defined below) to (i) repay \$615.0 million in borrowings under the 364-Day Senior Secured Bridge Credit Agreement (as described below) resulting in a loss on settlement of debt of \$5.3 million consisting of unamortized financing fees, (ii) settle approximately \$383.3 million aggregate principal amount of the Company's 2015 Senior Convertible Debt and approximately \$643.9 million aggregate principal amount of the Company's 2017 Senior Convertible Debt, and (iii) repay a portion of the amount outstanding under the Company's existing revolving credit facility (the "Revolving Credit Facility") as well as for general corporate purposes (the "June 2020 Settlements"). The Company settled, in separate privately negotiated transactions that are accounted for as induced conversions, (i) approximately \$383.3 million aggregate principal amount of its 2015 Senior Convertible Debt for \$383.3 million in cash and 4.1 million shares of the Company's common stock valued at \$405.1 million for total consideration of \$788.4 million, of which \$314.4 million was allocated to the fair value of the liability component and \$464.4 million was allocated to the reacquisition of the equity component, and (ii) approximately \$643.9 million aggregate principal amount of its 2017 Senior Convertible Debt for \$643.9 million in cash and 2.5 million shares of the Company's common stock valued at \$246.4 million for total consideration of \$890.3 million, of which \$481.0 million was allocated to the fair value of the liability component and \$399.3 million was allocated to the reacquisition of the equity component. The consideration was allocated to the liability and equity components using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt instrument prior to the settlement, resulting in a net loss on inducement and settlement of debt of \$21.5 million.

In March 2020, the Company settled, in privately negotiated transactions that are accounted for as induced conversions, \$615.0 million aggregate principal amount of its 2015 Senior Convertible Debt for \$615.0 million in cash and 5.2 million shares of the Company's common stock valued at \$351.8 million for total consideration of \$966.8 million. In addition, the Company also entered into a 364-Day Senior Secured Bridge Credit Agreement, which provides for a term loan facility (the "Bridge Loan Facility") for an aggregate principal amount of \$615.0 million to finance the cash portion of its 2015 Senior Convertible Debt settlement transaction.

Senior Notes

2.670% 2023 Notes and 4.250% 2025 Notes

In May 2020, the Company issued \$1.00 billion aggregate principal amount of 2.670% Senior Secured Notes due 2023 (the "2.670% 2023 Notes") and \$1.20 billion aggregate principal amount of 4.250% Senior Unsecured Notes due 2025 (the "4.250% 2025 Notes") in a private placement. In connection with the issuance of these notes, the Company incurred issuance costs of \$3.8 million and recorded a debt discount of \$18.0 million for fees deducted from the proceeds, which will both be amortized using the effective interest method over the term of the debt. The Company used proceeds from the issuance of the 2.670% 2023 Notes and the 4.250% 2025 Notes to fund the June 2020 Settlements. The 2.670% 2023 Notes mature on September 1, 2023 and interest accrues at a rate of 2.670% per annum, payable semi-annually in arrears on March 1 and September 1 of each

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year. The 4.250% 2025 Notes mature on September 1, 2025 and interest accrues at a rate of 4.250% per annum, payable semi-annually in arrears on March 1 and September 1 of each year.

The Company may, at its option, redeem some or all of the 2.670% 2023 Notes prior to September 1, 2023 at a price equal to the greater of (a) 100% of the principal amount of the 2.670% 2023 Notes redeemed and (b) the sum of the present value of all remaining scheduled payments of principal and interest (discounted in accordance with the 2.670% 2023 Notes indenture) that would have been due on the redeemed 2.670% 2023 Notes, in each case, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to September 1, 2022, the Company may, at its option, redeem up to 40% of the original aggregate principal amount of the 4.250% 2025 Notes with the net cash proceeds of one or more equity offerings (as such terms are defined in the 4.250% 2025 Notes indenture), at a price equal to 104.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date, provided that (i) at least 60% of the original aggregate principal amount of the 4.250% 2025 Notes remains outstanding after each such redemption and (ii) such redemption occurs within 60 days after the closing of such equity offering. In addition, prior to September 1, 2022, the Company may, at its option, redeem the 4.250% 2025 Notes in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of 4.250% 2025 Notes redeemed, plus, in each case, a premium equal to the greater of (i) 1.0% of the principal amount of such 4.250% 2025 Notes and (ii) the excess, if any, of (a) the present value as of such date of redemption of (1) the redemption price of such 4.250% 2025 Notes on September 1, 2022, plus (2) all required interest payments due on such 4.250% 2025 Notes through September 1, 2022 (excluding accrued but unpaid interest to the date of redemption) computed using a discount rate equal to the treasury rate (as defined in the 4.250% 2025 Notes indenture) as of such date of redemption plus 50 basis points, over (b) the then outstanding principal amount of such 4.250% 2025 Notes. On or after September 1, 2022, the Company may, at its option, redeem some or all of the 4.250% 2025 Notes, at a redemption price equal to (i) if during the twelve-month period beginning on September 1, 2022, 102.125% of the aggregate principal amount of 4.250% 2025 Notes redeemed, (ii) if during the twelve-month period beginning on September 1, 2023, 101.063% of the aggregate principal amount of 4.250% 2025 Notes redeemed, and (iii) if during the twelve-month period beginning on September 1, 2024 or thereafter, 100% of the aggregate principal amount of 4.250% 2025 Notes redeemed, in each case, plus accrued and unpaid interest on such 4.250% 2025 Notes, if any, to, but excluding, the repurchase date.

If the Company experiences a specified change of control triggering event, the Company must offer to repurchase the 2.670% 2023 Notes and 4.250% 2025 Notes at a price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The 2.670% 2023 Notes indenture and the 4.250% 2025 Notes indenture contain customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, create or incur certain liens, and enter into sale and leaseback transactions, and consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets, to another person. The 2.670% 2023 Notes indenture contains covenants that restrict the ability of the Company and its subsidiaries to sell or otherwise dispose of any assets constituting collateral securing the 2.670% 2023 Notes. These covenants are subject to a number of limitations and exceptions set forth in the indentures.

The 2.670% 2023 Notes and 4.250% 2025 Notes are guaranteed by certain of the Company's subsidiaries that have also guaranteed the obligations under the Company's Revolving Credit Facility and under the Term Loan Facility (the Term Loan Facility together with the Revolving Credit Facility, the "Senior Credit Facilities"), and under the Company's existing Senior Secured Notes. In the future, each subsidiary of the Company that is a guarantor or other obligor of the Company's existing Senior Credit Facilities or certain other indebtedness of the Company will guarantee the 2.670% 2023 Notes and 4.250% 2025 Notes.

The 2.670% 2023 Notes and the 2.670% 2023 Notes guarantees are secured, on a pari passu first lien basis with the Company's existing Senior Credit Facilities, by substantially all of the tangible and intangible assets (other than certain excluded assets) of the Company and the guarantors that secure obligations under the Company's existing Senior Credit Facilities, in each case subject to certain thresholds, exceptions and permitted liens, as set forth in a pledge and the security agreement, dated May 29, 2020, by and among the Company, the subsidiary guarantors party thereto and the collateral agent.

4.333% 2023 Notes and 3.922% 2021 Notes

In May 2018, the Company issued \$1.00 billion aggregate principal amount of 3.922% Senior Secured Notes due 2021 (the "3.922% 2021 Notes") and \$1.00 billion aggregate principal amount of 4.333% Senior Secured Notes due 2023 (the "4.333% 2023 Notes", and together with the 3.922% 2021 Notes, the "Senior Secured Notes") in a private placement. In connection with the issuance of these notes, the Company incurred issuance costs of \$24.4 million and recorded a debt discount of \$10.5 million for fees deducted from the proceeds, which will both be amortized using the effective interest method over the term of the debt. The 3.922% 2021 Notes mature on June 1, 2021 and the 4.333% 2023 Notes mature on June 1, 2023. Interest on the

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3.922% 2021 Notes accrues at a rate of 3.922% per annum, payable semi-annually in arrears on June 1 and December 1 of each year. Interest on the 4.333% 2023 Notes accrues at a rate of 4.333% per annum, payable semi-annually in arrears on June 1 and December 1 of each year.

Senior Credit Facilities

In March 2020 and September 2019, the Company amended the Company's Credit Agreement to, among other things, amend certain negative covenants, including covenants that restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens and enter into certain restrictive agreements. The amendments provide the Company the ability to finance a Convertible Notes repurchase not to exceed \$1.0 billion with secured debt, and the ability to factor receivables and certain related assets as further explained below. In addition, the amendments reduce the margin added to the interest rate on revolving loans under the Credit Agreement to 0.0% to 0.75% for base rate loans and 1.0% to 1.75% for the LIBOR rate loans, in each case determined based on the Company's senior leverage ratio. The amendments reduced the commitments for the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion.

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 approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at June 30, 2020 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

The fair values of the Company's revolving credit facility, term loan facility and bridge loan facility are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's revolving credit facility, term loan facility and bridge loan facility at June 30, 2020 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 senior and junior subordinated convertible debt and senior secured and unsecured notes for disclosure purposes. These fair values are based on observable market prices for this debt, which is traded in less active markets and are therefore classified as a Level 2 fair value measurement.

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The following table shows the carrying amounts and fair values of the Company's debt obligations as of June 30, 2020 and March 31, 2020 (in millions).

	June 30, 2020		March 31, 2020	
	Carrying Amount ⁽¹⁾	Fair Value	Carrying Amount ⁽¹⁾	Fair Value
Revolving Credit Facility	\$ 1,441.1	\$ 1,454.6	\$ 2,373.9	\$ 2,388.5
Term Loan Facility	\$ 1,691.8	\$ 1,705.7	\$ 1,708.9	\$ 1,723.5
Bridge Loan Facility	\$ —	\$ —	\$ 608.8	\$ 615.0
4.333% 2023 Notes	\$ 989.7	\$ 1,080.0	\$ 988.8	\$ 990.0
3.922% 2021 Notes	\$ 994.6	\$ 1,020.0	\$ 993.1	\$ 985.0
2.670% 2023 Notes	\$ 995.4	\$ 1,030.0	\$ —	\$ —
4.250% 2025 Notes	\$ 1,183.2	\$ 1,207.6	\$ —	\$ —
2017 Senior Convertible Debt	\$ 1,080.4	\$ 2,104.4	\$ 1,552.8	\$ 2,130.3
2015 Senior Convertible Debt	\$ 601.7	\$ 1,613.4	\$ 910.1	\$ 1,601.8
2017 Junior Convertible Debt	\$ 348.4	\$ 997.4	\$ 345.8	\$ 656.2

⁽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

Intangible assets consist of the following (in millions):

	June 30, 2020		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$ 7,333.0	\$ (2,132.2)	\$ 5,200.8
Customer-related	903.6	(701.2)	202.4
In-process research and development	7.7	—	7.7
Distribution rights and other	132.9	(57.0)	75.9
Total	\$ 8,377.2	\$ (2,890.4)	\$ 5,486.8

	March 31, 2020		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$ 7,331.9	\$ (1,924.6)	\$ 5,407.3
Customer-related	903.6	(674.7)	228.9
In-process research and development	8.8	—	8.8
Distribution rights and other	126.0	(68.7)	57.3
Total	\$ 8,370.3	\$ (2,668.0)	\$ 5,702.3

The following is an expected amortization schedule for the intangible assets for the remainder of fiscal 2021 through fiscal 2025, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending March 31,	Projected Amortization Expense
2021	\$ 740.2
2022	\$ 906.0
2023	\$ 701.5
2024	\$ 622.8
2025	\$ 505.6

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

	Three Months Ended June 30,	
	2020	2019
Amortization expense charged to cost of sales	\$ 1.9	\$ 2.2
Amortization expense charged to operating expense	249.8	258.7
Total amortization expense	<u>\$ 251.7</u>	<u>\$ 260.9</u>

There were no impairment charges in the three months ended June 30, 2020, compared to \$0.5 million in the three months ended June 30, 2019.

The following shows the goodwill balance as of June 30, 2020 and March 31, 2020 by segment (in millions):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Goodwill	\$ 6,645.6	\$ 19.2

At March 31, 2020, the Company applied a qualitative goodwill impairment test to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through June 30, 2020, the Company has never recorded an impairment charge against its goodwill balance.

Note 9. Other Financial Statement Details

Accounts Receivable

Accounts receivable consists of the following (in millions):

	June 30, 2020	March 31, 2020
Trade accounts receivable	\$ 888.6	\$ 924.1
Other	9.6	14.8
Total accounts receivable, gross	898.2	938.9
Less allowance for expected credit losses	3.9	4.9
Total accounts receivable, net	<u>\$ 894.3</u>	<u>\$ 934.0</u>

Inventories

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

	June 30, 2020	March 31, 2020
Raw materials	\$ 99.3	\$ 92.3
Work in process	401.4	441.7
Finished goods	156.5	151.7
Total inventories	<u>\$ 657.2</u>	<u>\$ 685.7</u>

Inventories are valued at the lower of cost and net realizable value using the first-in, first-out method. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.

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Property, Plant and Equipment

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

	June 30, 2020	March 31, 2020
Land	\$ 83.4	\$ 83.4
Building and building improvements	658.6	659.5
Machinery and equipment	2,144.4	2,123.1
Projects in process	89.4	100.1
Total property, plant and equipment, gross	2,975.8	2,966.1
Less accumulated depreciation and amortization	2,131.8	2,090.0
Total property, plant and equipment, net	\$ 844.0	\$ 876.1

Depreciation expense attributed to property, plant and equipment was \$41.1 million for the three months ended June 30, 2020 compared to \$46.2 million for the three months ended June 30, 2019.

Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	June 30, 2020	March 31, 2020
Accrued compensation and benefits	\$ 147.4	\$ 137.5
Income taxes payable	40.3	38.0
Sales related reserves	359.2	353.0
Current portion of lease liabilities	40.2	44.5
Accrued expenses and other liabilities	191.3	208.8
Total accrued liabilities	\$ 778.4	\$ 781.8

Note 10. Commitments and Contingencies

Indemnification Contingencies

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$168.1 million. There are some licensing agreements in place that do not specify indemnification limits. As of June 30, 2020, 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

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

Legal Matters

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

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

Federal Shareholder Class Action Litigation. Beginning on September 14, 2018, the Company and certain of its officers were named in two putative shareholder class action lawsuits filed in the United States District Court for the District of Arizona, captioned *Jackson v. Microchip Technology Inc., et al.*, Case No. 2:18-cv-02914-JJT and *Maknissian v. Microchip Technology Inc., et al.*, Case No. 2:18-cv-02924-JJT. On November 13, 2018, the Maknissian complaint was voluntarily dismissed. The Jackson complaint is allegedly brought on behalf of a putative class of purchasers of Microchip common stock between March 2, 2018 and August 9, 2018. The complaint asserts claims for alleged violations of the federal securities laws and generally alleges that the defendants issued materially false and misleading statements and failed to disclose material adverse facts about the Company's business, operations, and prospects during the putative class period. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. On December 11, 2018, the Court issued an order appointing the lead plaintiff. An amended complaint was filed on February 22, 2019. Defendants filed a motion to dismiss the amended complaint on April 1, 2019, which motion was granted in part and denied in part on March 11, 2020. Defendants filed their answer on April 24, 2020. Discovery is ongoing.

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

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

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the amended complaint on April 24, 2020. The parties stipulated to plaintiff's request to file a second amended complaint, and the pending motions to dismiss were withdrawn as moot. A second amended complaint was filed on July 27, 2020.

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

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

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

Continental Claim ICC Arbitration. On December 29, 2016, Continental Automotive GmbH ("Continental") filed a Request for Arbitration with the ICC, naming as respondents the Company's subsidiaries Atmel Corporation, Atmel SARL, Atmel Global Sales Ltd., and Atmel Automotive GmbH (collectively, "Atmel"). The Request alleges that a quality issue affecting Continental airbag control units in certain recalled vehicles stems from allegedly defective Atmel application specific integrated circuits ("ASICs"). Continental seeks to recover from Atmel all related costs and damages incurred as a result of the vehicle manufacturers' airbag control unit-related recalls, currently alleged to be \$217 million. The Company's Atmel subsidiaries intend to defend this action vigorously.

Southern District of New York Action by LFoundry Rousset ("LFR") and LFR Employees. On March 4, 2014, LFR and Jean-Yves Guerrini, individually and on behalf of a putative class of LFR employees, filed an action in the United States District Court for the Southern District of New York (the "District Court") against the Company's Atmel subsidiary, French subsidiary, Atmel Rousset S.A.S. ("Atmel Rousset"), and LFoundry GmbH ("LF"), LFR's German parent. The case purports to relate to Atmel Rousset's June 2010 sale of its wafer manufacturing facility in Rousset, France to LF, and LFR's subsequent insolvency, and later liquidation, more than three years later. The District Court dismissed the case on August 21, 2015, and the United States Court of Appeals for the Second Circuit affirmed the dismissal on June 27, 2016. On July 25, 2016, the plaintiffs filed a notice of appeal from the District Court's June 27, 2016 denial of their motion for relief from the dismissal judgment. On May 19, 2017, the United States Court of Appeals for the Second Circuit affirmed the June 27, 2016 order dismissing the case.

Individual Labor Actions by former LFR Employees. In June 2010, Atmel Rousset sold its wafer manufacturing business in Rousset, France to LFoundry GmbH ("LF"), the German parent of LFoundry Rousset ("LFR"). LFR then leased the Atmel Rousset facility to conduct the manufacture of wafers. More than three years later, LFR became insolvent and later liquidated. In the wake of LFR's insolvency and liquidation, over 500 former employees of LFR filed individual labor actions against Atmel Rousset in a French labor court, and in 2019 a French labor court dismissed all of the employees' claims against Atmel Rousset. Plaintiffs have filed appeals requesting reconsideration of the earlier dismissals. Furthermore, these same claims have been filed by this same group of employees in a regional court in France against Microchip Technology Incorporated and Atmel Corporation. The Company, and the other defendant entities, believe that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with any of these entities is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. The defendant entities therefore intend to defend vigorously against each of these claims. Additionally, complaints have been filed in a regional court in France on behalf of the same group of employees against Microchip Technology Rousset, Atmel Switzerland Sarl, Atmel Corporation and Microchip Technology Incorporated alleging that the sale of the Atmel Rousset production unit to LF was fraudulent and should be voided. These claims are specious and the defendant entities therefore intend to defend vigorously against these claims.

The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, the Company accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, the Company records an accrual for the amount within the range 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 June 30, 2020, the Company's estimate of the aggregate potential liability that is possible but not probable is approximately \$100 million in excess of amounts accrued.

Note 11. Income Taxes

The Company accounts for income taxes in accordance with ASC 740. The provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. The Company's effective tax rate used for interim periods is based on an estimated annual effective tax rate including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. The Company's effective tax rates for the three months ended June 30, 2020 and June 30, 2019 were not meaningful due to the amount of pre-tax income, and income tax benefits recorded during the period.

The Company's effective tax rates for the three months ended June 30, 2020 were lower compared to the prior year primarily due to significant non-recurring discrete benefits related to releases of uncertain tax positions mainly due to statute lapses and non-recurring benefits associated with restructuring activities partially offset by a nonrecurring expense associated with the tax impact of the Altera decision (as described below). The Company's effective tax rate for the three months ended June 30, 2020 included a \$60.9 million tax benefit related to the intra-group transfer of certain intellectual property rights, which reduced the Company's effective tax rate for the three months ended June 30, 2020 by 69.46%. The Company's effective tax rate is different than the statutory rates in the U.S. due to foreign income taxed at different rates than the U.S., changes in uncertain tax benefit positions, changes to valuation allowances, generation of tax credits, and the impact of the Global Intangible Low-Taxed Income ("GILTI") tax in the United States. In addition, the Company has numerous tax holidays it receives related to its Thailand manufacturing operations based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future, 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.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. In the July 2015 ruling, the Tax Court concluded that the sharing of the cost of employee stock compensation in a company's cost-sharing arrangement was invalid under the U.S. Administrative Procedures Act. In June 2019, a panel of the Ninth Circuit of the U.S. Court of Appeals reversed this decision. In July 2019, Altera petitioned U.S. Court of Appeals for the Ninth Circuit to hold an en banc rehearing of the case. In November 2019, the en banc rehearing petition was denied, and Altera asked the U.S. Supreme Court for a judicial review. On June 22, 2020, the U.S. Supreme Court declined to issue a writ of certiorari in *Altera v. Commissioner*, leaving intact the decision reached by the Ninth Circuit of the U.S. Court of Appeals. Based on the Ninth Circuit Opinion, the Company recorded a cumulative income tax expense of \$21.8 million during the three months ended June 30, 2020.

In April 2020, the Company became aware of a withholding tax regulation that could be interpreted to apply to certain of the Company's previous intra-group transactions. During the three months ended June 30, 2020, the Company evaluated the interpretations of these rules as it applies to the Company's facts and circumstances for tax years remaining open under the applicable statutes of limitation and in response the Company recorded an immaterial income tax expense during the period. The Company will evaluate new information as it becomes available and assess its effect to the tax provision.

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.

Note 12. Share-Based Compensation

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

	Three Months Ended June 30,	
	2020	2019
Cost of sales ⁽¹⁾	\$ 6.4	\$ 4.9
Research and development	20.5	19.5
Selling, general and administrative	15.5	16.3
Pre-tax effect of share-based compensation	42.4	40.7
Income tax benefit	9.1	9.1
Net income effect of share-based compensation	\$ 33.3	\$ 31.6

⁽¹⁾ During the three months ended June 30, 2020, \$4.0 million of share-based compensation expense was capitalized to inventory, and \$6.4 million of previously capitalized share-based compensation expense in inventory was sold. During the three months ended June 30, 2019, \$4.8 million of share-based compensation expense was capitalized to inventory and \$4.9 million of previously capitalized share-based compensation expense in inventory was sold.

Note 13. Stock Repurchase Activity

As of June 30, 2020, 15.0 million shares of common stock remained available for repurchase under the existing share repurchase program. There is no expiration date associated with the repurchase program. There were no repurchases of common stock during the three months ended June 30, 2020. Shares repurchased are recorded as treasury shares and used to fund share issuance requirements under the Company's equity incentive plans. As of June 30, 2020, the Company had approximately 12.6 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, for the three months ended June 30, 2020 (in millions):

	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2020	\$ (5.1)	\$ (16.5)	\$ (21.6)
Other comprehensive income (loss) before reclassifications	(0.8)	1.0	0.2
Amounts reclassified from accumulated other comprehensive income (loss)	0.3	—	0.3
Net other comprehensive income (loss)	(0.5)	1.0	0.5
Balance at June 30, 2020	\$ (5.6)	\$ (15.5)	\$ (21.1)

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

Description of AOCI Component	Three Months Ended June 30,		Related Statement of Income Line
	2020	2019	
Amortization of actuarial loss	\$ (0.3)	\$ (0.2)	Other income, net

Note 15. Dividends

A quarterly cash dividend of \$0.3675 per share was paid on June 4, 2020 in the aggregate amount of \$90.4 million. A quarterly cash dividend of \$0.3680 per share was declared on August 4, 2020 and will be paid on September 4, 2020 to stockholders of record as of August 21, 2020. The Company expects the September 2020 payment of its quarterly cash dividend to be approximately \$93.0 million.

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

Note Regarding Forward-looking Statements

This report, including "Part I – Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II - Item 1A Risk Factors" contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "plan," "expect," "future," "continue," "intend" and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under "Risk Factors," beginning at page 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:

- The impact of disruptions to our manufacturing and the distribution of our products, including disruptions due to the COVID-19 pandemic and related government responses;
- That our lead times and ability to fulfill orders were significantly adversely impacted by the COVID-19 pandemic in the early part of the fiscal quarter ended June 30, 2020, but improved as the quarter progressed and the pandemic could adversely impact our business in the fiscal quarter ended September 30, 2020;
- That local governments could require us to temporarily reduce production further or cease operations at any of our facilities and we could experience constraints in fulfilling customer orders;
- Our belief that our actions to combat the spread of the COVID-19 virus will help preserve the health of our team members, customers, suppliers, visitors to our facilities, people with whom we conduct business and our communities, and allow us to safely continue operations;
- Our inability to predict how the COVID-19 pandemic, and actions taken by others in response to it, will affect our business;
- The effects that uncertain global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines and modest pricing declines in certain of our more mature proprietary product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, fixed cost absorption, competition and economic conditions on gross margin;
- The amount of, and changes in, demand for our products and those of our customers;
- The impact of national security protections, trade restrictions and changes in tariffs, including those impacting China;
- Our expectation that in the future we will acquire additional businesses that we believe will complement our existing businesses;
- Our expectation that in the future we will enter into joint development agreements or other business or strategic relationships with other companies;
- The level of orders that will be received and shipped within a quarter, including the impact of our product lead times;
- Our expectation that our September 2020 days of inventory levels will be up 1 to 13 days compared to the June 2020 levels. Our belief that our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- Anticipating increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances in our products;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;
- Our ability to increase the proprietary portion of our analog, interface, mixed signal and timing product lines and the effect of such an increase;
- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;

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- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- The cost savings from re-purposing Fab 5 for the manufacture of discrete and specialty products in addition to a lower volume of a diversified set of standard products and transferring the manufacture of certain higher volume products to other facilities;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- The impact of seasonality on our business;
- Our belief that our IT system compromise has not had a material adverse effect on our business or resulted in any material damage to us;
- Our expectation that we will continue to be the target of attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our effective tax rate;
- The impact of the geographical dispersion of our earnings and losses on our effective tax rate;
- Our belief that the estimates used in preparing our condensed consolidated financial statements are reasonable;
- Our actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis;
- Our ability to obtain patents and intellectual property licenses and minimize the effects of litigation;
- The level of risk we are exposed to for product liability claims or indemnification claims;
- The effect of fluctuations in market interest rates on our income and/or cash flows;
- The effect of fluctuations in currency rates;
- That we could increase our borrowings or seek additional equity or debt financing to maintain or expand our facilities, or to fund cash dividends, share repurchases, acquisitions or other corporate activities, and that the timing and amount of such financing requirements will depend on a number of factors;
- Our intention to satisfy the lesser of the principal amount or the conversion value of our debentures in cash;
- Our intention to invest substantially all of our foreign subsidiary earnings, as well as our capital in our foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which we would incur significant, additional costs upon repatriation of such amounts.
- Changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings; and
- Our ability to collect accounts receivable.

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

Introduction

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

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of COVID-19 developments followed by a summary of our overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three months ended June 30, 2020 compared to the three months ended June 30, 2019. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources", "Contractual Obligations" and "Off-Balance Sheet Arrangements."

COVID-19 Developments

The ongoing COVID-19 pandemic has resulted in a global reduction in economic activity by adversely affecting production, creating supply chain and market disruption, and adversely impacting businesses and individuals. The severity and duration of the economic impact is currently unknown and will depend on many factors, such as the effectiveness of containment efforts. We regularly monitor new information regarding the severity of the COVID-19 virus and the ability to contain, treat, or prevent it.

Demand for our products has increased in the areas of our business that support the stay-at-home economy, such as products used in medical devices, datacenters, communications infrastructure, computers, printers, monitors and contact free consumer and industrial products. However, demand has decreased in other areas such as automotive, broad based industrial, consumer and home appliances. We have seen a greater number of order cancellations and requests to reschedule deliveries to future dates. In particular, in the early part of the fiscal quarter ended June 30, 2020, some customers requested order cancellation within our firm order window and claimed applicability of force majeure clauses. While we have a diverse customer base operating in diverse industries, the extent of the impact of the COVID-19 pandemic on demand for our products depends on unpredictable future developments.

At this time, our global manufacturing sites are operational, though certain of them are operating at reduced utilization levels. This may be due to local restrictions related to the COVID-19 pandemic, such as our Philippine manufacturing sites, or a decrease in demand for products manufactured at a particular site. Additionally, travel restrictions have impacted our subcontractors' manufacturing operations in Malaysia and China, and similar challenges have arisen for our logistics service providers, which has impacted their ability to ship product to our customers. The overall adverse impact to our lead times and ability to fulfill orders was significant in the early part of the fiscal quarter ended June 30, 2020 but improved as the quarter progressed. However, the pandemic could adversely impact our business in the fiscal quarter ended September 30, 2020 and could continue to adversely impact our business in future periods if the number of COVID-19 cases increases. In the future, local governments could require us to temporarily reduce production further or cease operations at any of our facilities and we could experience constraints in fulfilling customer orders.

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

Our efforts to combat the COVID-19 pandemic include the following:

- We require social distancing, and have established distancing protocols at our facilities. We currently prohibit visitors, have suspended business travel, have suspended attendance at conferences and other gatherings, and require team members to work from home to the extent possible. Where work from home is not possible, all on-site team members are requested to take their temperatures before arriving to work, stay home if they do not feel well, stay home if they have been exposed to someone with the COVID-19 virus or its symptoms, maintain a safe distance from others, wash their hands frequently, and wear a mask if they choose. We clean high touch surfaces daily.

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

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

Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on embedded control solutions, including general purpose and specialized 8-bit, 16-bit, and 32-bit microcontrollers, microprocessors, field-programmable gate array (FPGA) products, a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, discrete diodes and MOSFETS, radio frequency (RF), timing, timing systems, safety, security, wired connectivity and wireless connectivity devices, as well as Serial Electrically Erasable Programmable Read Only Memory (EEPROM), Serial Flash memories, Parallel Flash memories, Serial Electrically Erasable Random Access Memory (EERAM) and Serial Static Random Access Memory (SRAM). We also license Flash-IP solutions that are incorporated in a broad range of products. We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, wide voltage range operation, mixed signal integration and ease of development, thus enabling timely and cost-effective integration of our solutions by our customers in their end products. We license our SuperFlash technology and other technologies to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of advanced microcontroller products, gate array, RF and analog products that require embedded non-volatile memory.

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

Our manufacturing operations include wafer fabrication, wafer probe and assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and assembly and test operations, and by employing statistical process control techniques, we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and the assembly and test profit margin. We do outsource a significant portion of our manufacturing requirements to third parties. Our acquisition of Microsemi, in May 2018, significantly increased the amount of our outsourced manufacturing requirements.

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

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

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

See "Our operating results are impacted by both seasonality and the wide fluctuations of supply and demand in the semiconductor industry," on page 45 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 three months of the fiscal year ending March 31, 2021 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, 2020.

Results of Operations

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

	Three Months Ended June 30,	
	2020	2019
Net sales	100.0%	100.0%
Cost of sales	39.0	38.4
Gross profit	61.0	61.6
Research and development	15.1	16.6
Selling, general and administrative	11.2	12.7
Amortization of acquired intangible assets	18.0	18.8
Special charges and other, net	—	0.6
Operating income	16.7%	13.0%

Net Sales

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

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

	Three Months Ended June 30,		
	2020	2019	Change
Net sales	\$ 1,309.7	\$ 1,322.6	(1.0)%

The decrease in net sales in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 was primarily due to adverse demand fluctuations in the markets we serve. As an indication of these adverse fluctuations, the net sales value of inventory at our distributor customers increased \$16.5 million during the three months ended June 30, 2020 compared to a decrease of \$27.2 million during the three months ended June 30, 2019. Excluding the change in inventory levels at our distributors, end market demand decreased by 4.2%, and was negatively impacted by general economic conditions and the impact of the COVID-19 pandemic. These adverse conditions did not impact each of the end markets we serve in the same manner. For instance, in the three months ended June 30, 2020 compared to the three months ended June 30, 2019, we experienced relatively weaker demand for our products that are used in the consumer, automotive and industrial markets and relatively stronger demand for our products that are used in the computing and communications markets. Due to the size, complexity and diversity of our customer base, we are not able to quantify the impact that general economic conditions and the COVID-19 pandemic had on each of our end markets.

Other factors that we believe contributed to changes in our reported net sales for the three months ended June 30, 2020 compared to the three months ended June 30, 2019 and which are drivers of long-term trends in our net sales but which factors we are not able to quantify include:

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

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 months ended June 30, 2020 compared to the prior year period. The overall average selling price of our products is affected by pricing declines over the life of individual products; however, variations in our product and geographic mix of sales can cause wider fluctuations in our overall average selling price in any given period. The overall average selling price of our products did not change significantly during the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

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

	Three Months Ended June 30,			
	2020	%	2019	%
Microcontrollers	\$ 716.4	54.7	\$ 708.3	53.6
Analog, interface, mixed signal and timing products	370.2	28.3	386.4	29.2
Field-programmable gate array products	86.8	6.6	91.0	6.9
Licensing, memory and other	136.3	10.4	136.9	10.3
Total net sales	\$ 1,309.7	100.0	\$ 1,322.6	100.0

Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 54.7% of our net sales in the three months ended June 30, 2020 compared to approximately 53.6% of our net sales in the three months ended June 30, 2019.

Net sales of our microcontroller products increased 1.1% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 due primarily to strength in the computing and communications markets, partially offset by weakness in the consumer, automotive and industrial markets.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller products have remained relatively constant over time due to the proprietary

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

Analog, Interface, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 28.3% of our net sales in the three months ended June 30, 2020 compared to approximately 29.2% of our net sales in the three months ended June 30, 2019.

Net sales of our analog, interface, mixed signal and timing products decreased 4.2% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 due primarily to adverse demand fluctuations in the markets we serve.

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

Field-Programmable Gate Array (FPGA) Products

Sales of our FPGA products accounted for approximately 6.6% of our net sales in the three months ended June 30, 2020 compared to approximately 6.9% of our net sales in the three months ended June 30, 2019.

Net sales of our FPGA products decreased 4.6% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019. This was due primarily to adverse demand fluctuations in the markets we serve.

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

Licensing, Memory and Other

Licensing, memory and other (LMO) includes royalties associated with licenses for the use of our SuperFlash and other technologies, sales of our intellectual property, fees for engineering services, memory products, timing systems, manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, and products for aerospace applications. Revenue from these services and products accounted for approximately 10.4% of our net sales in the three months ended June 30, 2020 compared to approximately 10.3% of our net sales in the three months ended June 30, 2019.

Net sales related to these services and products decreased 0.4% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019. This sales decrease was due primarily to adverse demand fluctuations in the markets we serve. LMO net sales can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our licenses, engineering services, memory products, and manufacturing services (wafer foundry and assembly and test subcontracting).

Distribution

Distributors accounted for approximately 50% of our net sales in each of the three months ended June 30, 2020 and June 30, 2019. With the exception of Arrow Electronics, our largest distributor, which made up 11% our net sales in the three months ended June 30, 2019, no other distributor or end customer accounted for more than 10% of our net sales in the three months ended June 30, 2020 and June 30, 2019. Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize Microchip for its products and brand name and use distributors as an effective supply channel.

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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 June 30, 2020, our distributors maintained 30 days of inventory of our products compared to 29 days at March 31, 2020. Over the past ten fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 27 days and 47 days. Inventory holding patterns at our distributors may have a material impact on our net sales.

Sales by Geography

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

	Three Months Ended June 30,			
	2020	%	2019	%
Americas	\$ 343.0	26.2	\$ 346.7	26.2
Europe	245.3	18.7	291.1	22.0
Asia	721.4	55.1	684.8	51.8
Total net sales	\$ 1,309.7	100.0	\$ 1,322.6	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 77% of our total net sales in the three months ended June 30, 2020 compared to approximately 79% of our total net sales in the three months ended June 30, 2019. Substantially all of our foreign sales are U.S. dollar denominated. Sales to customers in Europe as a percentage of total sales decreased in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 due to the impact of the COVID-19 pandemic on our customers that service the automotive and industrial markets in Europe. Sales to customers in Asia as a percentage of total sales increased in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 due to the fact that the COVID-19 pandemic was largely under control in China and Taiwan, which represent the highest percentage of our net sales in Asia, during the three months ended June 30, 2020, and therefore, the geography returned to higher levels of demand. 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 June 30, 2020 was \$798.3 million, or 61.0% of net sales, compared to \$815.2 million, or 61.6% of net sales, in the three months ended June 30, 2019. The following table summarizes the material and primary drivers of our change in gross profit as a percentage of net sales, with the material factors discussed in more detail below the table (dollars in millions):

Gross Profit	% of Net Sales	
\$ 815.2	61.6	Three months ended June 30, 2019
(10.1)	—	Decrease in semiconductor net sales at June 30, 2019 gross margins and excluding the impact of other factors quantified in this table
(6.6)	(0.5)	Impact of unabsorbed capacity charges
(3.0)	(0.3)	Impact of higher costs per unit related to sold inventory
3.4	0.3	Increase in net sales to licensing customers, which has no associated cost of sales
(0.6)	(0.1)	Other individually immaterial factors
\$ 798.3	61.0	Three months ended June 30, 2020

Unabsorbed capacity charges - When production levels are below normal capacity, which we measure as a percentage of the capacity of the installed equipment, we charge cost of sales for the unabsorbed capacity. During the three months ended June 30, 2020, we operated at below normal capacity levels due to lower demand for our products primarily related to general economic conditions and uncertainty from the COVID-19 pandemic resulting in unabsorbed capacity charges of \$13.9 million compared to unabsorbed capacity charges of \$7.3 million in the three months ended June 30, 2019. We adjust our wafer fabrication and assembly and test capacity utilization as required to respond to actual and anticipated business and industry-related conditions.

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Higher costs per unit related to sold inventory - Our product cost per unit may fluctuate over time due to cost of materials and other factors and also fluctuate based on the mix of products sold. During the three months ended June 30, 2020, product mix resulted in \$3.0 million higher cost of goods sold and decrease in gross profit than the comparable metric in the three months ended June 30, 2019.

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

Our overall inventory levels were \$657.2 million at June 30, 2020, compared to \$685.7 million at March 31, 2020. We maintained 117 days of inventory on our balance sheet at June 30, 2020 compared to 122 days of inventory at March 31, 2020. We expect our days of inventory levels in the September 2020 quarter to be up 1 to 13 days compared to the June 2020 levels. We believe our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers.

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

During fiscal 2020, we announced our intention to re-purpose Fab 5 to manufacture discrete and specialty products in addition to a lower volume of a diversified set of standard products. In connection with these efforts, we reduced the clean room footprint and transferred certain higher volume products from Fab 5 to our 8-inch wafer fabrication facilities in Arizona and Oregon. We anticipate that these actions will result in significant cost savings over the next several years. In fiscal 2020, we incurred \$18.0 million in costs associated with these actions and during the three months ended June 30, 2020, we incurred \$1.0 million in such costs, all of which have been recorded within the special charges and other, net line item in our statements of income. We expect to incur less than \$7.0 million within fiscal 2021 for the remaining associated costs of these restructuring activities.

We operate assembly and test facilities in Thailand, the Philippines, and other locations throughout the world. Approximately 47% of our assembly requirements were performed in our internal assembly facilities in the three months ended June 30, 2020 compared to approximately 45% during the three months ended June 30, 2019. Approximately 55% of our test requirements were performed in our internal test facilities in the three months ended June 30, 2020 compared to approximately 54% during the three months ended June 30, 2019. The increases in the percentage of assembly and test operations that were performed internally in fiscal 2021 compared to fiscal 2020 are primarily due to our investments in assembly and test equipment, which increased our internal capacity capabilities, and also due to adverse demand fluctuations in the markets we serve, which reduced our demand for external assembly and test operations. Third-party contractors located primarily in Asia perform the balance of our assembly and test operations. The percentage of our assembly and test operations that are performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry, our internal capacity capabilities and our acquisition activities. We believe that the assembly and test operations performed at our internal facilities provide us with significant cost savings compared to contractor assembly and test costs, as well as increased control over these portions of the manufacturing process. We plan to continue to transition certain outsourced assembly and test capacity to our internal facilities.

We rely on outside wafer foundries for a significant portion of our wafer fabrication requirements. Approximately 61% of our net sales came from products that were produced at outside wafer foundries in each of the three months ended June 30, 2020 and June 30, 2019.

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

Research and Development (R&D)

R&D expenses for the three months ended June 30, 2020 were \$198.0 million, or 15.1% of net sales, compared to \$219.1 million, or 16.6% of net sales, for the three months ended June 30, 2019. 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 \$21.1 million, or 9.6%, for the three months ended June 30, 2020 over the same period last year. The primary reason for the decrease in R&D costs was due to management of discretionary spending, including reduced headcount costs and travel expenses, due to uncertainty surrounding the COVID-19 pandemic.

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

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended June 30, 2020 were \$146.3 million, or 11.2% of net sales, compared to \$167.9 million, or 12.7% of net sales, for the three months ended June 30, 2019. Our goal is to continue to be more efficient with our operating expenses. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses. Selling, general and administrative expenses also include costs related to our direct sales force, CEMs and ESEs who work 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 \$21.6 million, or 12.9%, for the three months ended June 30, 2020 over the same period last year. The primary reason for the decrease in selling, general and administrative expenses was due to management of discretionary spending, including reduced headcount costs and travel expenses, due to uncertainty surrounding the COVID-19 pandemic.

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 months ended June 30, 2020 was \$235.4 million, compared to \$248.5 million for the three months ended June 30, 2019. The primary reason for the decrease was lower amortization from our acquisition of Microsemi and from our prior acquisitions.

Special Charges and Other, Net

During the three months ended June 30, 2020, we incurred special charges and other, net of \$0.3 million, compared to \$8.1 million for the three months ended June 30, 2019. The costs incurred during the three months ended June 30, 2020 were primarily related to restructuring of our wafer fabrication operations. Other restructuring expenses incurred during the three months ended June 30, 2020 and June 30, 2019 were related to our most recent business acquisitions, and resulted from workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations.

Other Income (Expense)

Interest income in the three months ended June 30, 2020 was \$0.3 million compared to \$0.7 million for the three months ended June 30, 2019.

Interest expense in the three months ended June 30, 2020 was \$99.1 million compared to \$132.6 million for the three months ended June 30, 2019. The primary reason for the decrease in interest expense in the three months ended June 30, 2020 compared to the same period last year relates to the cumulative pay down of our debt and lower interest rates on our outstanding variable rate debt.

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During the three months ended June 30, 2020, we recognized losses of \$26.8 million related to the settlement of approximately \$383.3 million in principal of our 2015 Senior Convertible Debt, approximately \$643.9 million in principal of our 2017 Senior Convertible Debt and \$615.0 million of borrowings under our Bridge Loan Facility. During the three months ended June 30, 2019, we recognized losses of \$1.9 million related to the voluntary prepayment of a portion of the outstanding balance on our Term Loan Facility.

Other loss, net in the three months ended June 30, 2020 was \$3.2 million compared to other income, net of \$2.7 million for the three months ended June 30, 2019. The primary reason for the decrease in other income (expense) in the three months ended June 30, 2020 compared to the same period last year relates to foreign currency exchange rate fluctuations.

Provision for Income Taxes

We account for incomes taxes in accordance with ASC 740. Our provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. A comparison of our effective tax rates for the fiscal years ended June 30, 2020 and June 30, 2019 is not meaningful due to the amount of pre-tax income, and income tax benefits recorded during the period.

We are subject to taxation in many jurisdictions in which we have operations. The effective tax rates that we pay in these jurisdictions vary widely, but they are generally lower than our combined U.S. federal and state effective tax rate. Our domestic statutory tax rate for the three months ended June 30, 2020 was approximately 22% and our domestic statutory tax rate for the fiscal year ended March 31, 2020 was approximately 22%. Our non-U.S. blended statutory tax rates for the three months ended June 30, 2020 and fiscal year ended March 31, 2020 were much lower than this amount. The difference in rates applicable in foreign jurisdictions results from a number of factors, including lower statutory rates, tax holidays, financing arrangements and other factors. Our effective tax rate has been, and will continue to be impacted by the geographical dispersion of our earnings and losses.

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

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

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. In the July 2015 ruling, the Tax Court concluded that the sharing of the cost of employee stock compensation in a company's cost-sharing arrangement was invalid under the U.S. Administrative Procedures Act. In June 2019, a panel of the Ninth Circuit of the U.S. Court of Appeals reversed this decision. In July 2019, Altera petitioned U.S. Court of Appeals for the Ninth Circuit to hold an en banc rehearing of the case. In November 2019, the en banc rehearing petition was denied, and Altera asked the U.S. Supreme Court for a judicial review. On June 22, 2020, the U.S. Supreme Court declined to issue a writ of *certiorari* in *Altera v Commissioner*, leaving intact the decision reached by the Ninth Circuit of the U.S. Court of Appeals. Based on the Ninth Circuit Opinion, we recorded a cumulative income tax expense of \$21.8 million during the three months ended June 30, 2020.

Liquidity and Capital Resources

We had \$380.2 million in cash, cash equivalents and short-term investments at June 30, 2020, a decrease of \$22.8 million from the March 31, 2020 balance.

Net cash provided by operating activities was \$501.8 million in the three months ended June 30, 2020 compared to \$380.6 million in the three months ended June 30, 2019. The increase in net cash provided by operating activities was primarily due to efforts focused on working capital and discretionary spending management.

Net cash used in investing activities was \$16.9 million in the three months ended June 30, 2020 compared to \$26.3 million in the three months ended June 30, 2019. During the three months ended June 30, 2020 and June 30, 2019, 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 three months ended June 30, 2020 were \$9.5 million compared to \$23.9 million in the three months ended June 30, 2019. Capital expenditures were primarily for the expansion of production capacity, the addition of research and development equipment and new office buildings. We currently intend to spend between \$50 million and \$70 million during the next twelve months to invest in equipment and facilities. We believe that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient manufacturing capacity to support the growth of our production capabilities for our new products and technologies and to bring in-house more of the assembly and test operations that are currently outsourced. We expect to finance our capital expenditures through our existing cash balances and cash flows from operations.

Net cash used in financing activities was \$507.7 million in the three months ended June 30, 2020 compared to \$348.9 million in the three months ended June 30, 2019. Significant transactions affecting our net financing cash flows include:

- in the first three months of fiscal 2021, net proceeds of \$2.18 billion from the issuance of our 2.670% 2023 Notes and our 4.250% 2025 Notes used to finance the cash portion of our settlement of approximately \$383.3 million in principal amount of our 2015 Senior Convertible Debt and approximately \$643.9 million in principal amount of our 2017 Senior Convertible Debt, \$615.0 million to repay in full all amounts outstanding under our Bridge Loan Facility, and \$933.9 million and used \$17.8 million of cash to pay down borrowings under our Revolving Credit Facility and our Term Loan Facility, respectively,
- in the first three months of fiscal 2020, \$257.5 million of cash used to pay down principal on the Term Loan Facility and the Revolving Credit Facility, net of amounts borrowed under our Revolving Credit Facility, and
- in the first three months of fiscal 2021 and fiscal 2020, we paid cash dividends to our stockholders of \$90.4 million and \$87.1 million, respectively.

In March 2020 and September 2019, we amended our credit agreement dated May 29, 2018, to, among other things, reduce the margin added to the interest rate on revolving loans under the Credit Agreement and amend certain negative covenants, including covenants that restrict our and our subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens and enter into certain restrictive agreements. The amendments also allow us the option to factor receivables and certain related assets. The amendments lowered the Revolving Credit Facility thereunder to \$3.57 billion from \$3.60 billion.

The Credit Agreement provides for a revolving loan facility in an aggregate principal amount of approximately \$3.57 billion, with a \$250.0 million foreign currency sublimit, a \$50.0 million letter of credit sublimit and a \$25.0 million swingline loan sublimit. The Credit Agreement also provides for the Term Loan Facility. The Revolving Credit Facility consists of \$3.57 billion of revolving loan commitments (the "2023 Revolving Loans") that terminate on May 18, 2023 (the "2023 Maturity Date"). The 2023 Revolving Loans bear interest, at our option, at the base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case, with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period. At June 30, 2020, we had \$1.45 billion and \$1.71 billion of outstanding borrowings under the Revolving Credit Facility and Term Loan Facility, respectively, compared to \$2.39 billion and \$1.72 billion at March 31, 2020, respectively. See Note 6 of the notes to our condensed consolidated financial statements for more information regarding our Credit Agreement.

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

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We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations has had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency rates in countries where we conduct operations will not adversely affect our operating results in the future. At June 30, 2020, we had no foreign currency forward contracts outstanding.

There were no repurchases of common stock during the first three months of fiscal 2021. As of June 30, 2020, we held approximately 12.6 million shares as treasury shares.

On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. A quarterly cash dividend of \$0.3675 per share was paid on June 4, 2020 in the aggregate amount of \$90.4 million. A quarterly dividend of \$0.3680 per share was declared on August 4, 2020 and will be paid on September 4, 2020 to stockholders of record as of August 21, 2020. We expect the aggregate cash dividend for September 2020 to be approximately \$93.0 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions, our results of operations, and potential changes in tax laws.

We believe that our existing sources of liquidity combined with cash generated from operations and borrowings under our Revolving Credit Facility will be sufficient to meet our currently anticipated cash requirements for at least the next 12 months. However, the semiconductor industry is capital intensive. In order to remain competitive, we must constantly evaluate the need to make significant investments in capital equipment for both production and research and development. We may increase our borrowings under our Revolving Credit Facility or seek additional equity or debt financing from time to time to maintain or expand our wafer fabrication and product assembly and test facilities, for cash dividends, for share repurchases or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including our level of dividend payments, changes in tax laws and regulations regarding the repatriation of offshore cash (including the impact of the Act), demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. We may from time to time seek to refinance certain of our outstanding notes or convertible debt through issuances of new notes or convertible debt or through exchange transactions. Such issuances or exchanges, 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 unfavorable market conditions resulting from the COVID-19 pandemic or other factors, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

Contractual Obligations

The following table summarizes our significant contractual obligations for the remainder of fiscal 2021 and thereafter, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in millions):

	Payments Due by Fiscal Year Ending March 31,				
	Total	2021	2022 - 2023	2024 - 2025	Thereafter
Operating lease obligations	\$ 211.0	\$ 38.2	\$ 71.7	\$ 33.1	\$ 68.0
Capital purchase obligations ⁽¹⁾	20.4	20.4	—	—	—
Other purchase obligations and commitments ⁽²⁾	127.8	125.6	1.9	0.3	—
Revolving Credit Facility ⁽³⁾	1,535.5	21.1	56.1	1,458.3	—
Term Loan Facility ⁽⁴⁾	1,888.5	27.9	74.4	74.4	1,711.8
4.333% 2023 Notes ⁽⁵⁾	1,130.1	21.7	86.7	1,021.7	—
3.922% 2021 Notes ⁽⁶⁾	1,039.2	19.6	1,019.6	—	—
2.670% 2023 Notes ⁽⁷⁾	1,087.2	20.4	53.4	1,013.4	—
4.250% 2025 Notes ⁽⁸⁾	1,468.5	39.0	102.0	102.0	1,225.5
2017 Senior Convertible Debt ⁽⁹⁾	1,588.2	23.2	46.3	46.3	1,472.4
2015 Senior Convertible Debt ⁽¹⁰⁾	785.7	11.8	23.6	750.3	—
2017 Junior Convertible Debt ⁽¹¹⁾	948.5	15.4	30.9	30.9	871.3
Pension obligations ⁽¹²⁾	21.8	1.0	3.3	4.6	12.9
	243.8	23.2	46.4	101.6	72.6
Transition tax obligation ⁽¹³⁾					
Total contractual obligations ⁽¹⁴⁾	\$ 12,096.2	\$ 408.5	\$ 1,616.3	\$ 4,636.9	\$ 5,434.5

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- (1) Capital purchase obligations represent commitments for construction or purchases of property, plant and equipment. These obligations were not recorded as liabilities on our balance sheet as of June 30, 2020, as we have not yet received the related goods or taken title to the property.
- (2) Other purchase obligations and commitments include payments due under various types of licenses and outstanding purchase commitments with our wafer foundries.
- (3) For purposes of this table, we have assumed that the principal of our 2023 revolving loans outstanding at June 30, 2020 will be paid on May 18, 2023, which is the maturity date of such borrowings.
- (4) The Term Loan Facility matures on May 29, 2025.
- (5) The 4.333% 2023 Notes mature on June 1, 2023.
- (6) The 3.922% 2021 Notes mature on June 1, 2021.
- (7) The 2.670% 2023 Notes mature on September 1, 2023.
- (8) The 4.250% 2025 Notes mature on September 1, 2025.
- (9) For purposes of this table, we have assumed that the principal of our 2017 Senior Convertible Debt will be paid on February 15, 2027, which is the maturity date of such debt.
- (10) For purposes of this table, we have assumed that the principal of our 2015 Senior Convertible Debt will be paid on February 15, 2025, which is the maturity date of such debt.
- (11) For purposes of this table, we have assumed that the principal of our 2017 Junior Convertible Debt will be paid on February 15, 2037, which is the maturity date of such debt.
- (12) For purposes of this table, pension obligations due in more than 5 years represent the expected pension payments from 2026 through 2030. It excludes pension obligations subsequent to 2030.
- (13) During fiscal 2018, we recognized a provisionary one-time transition tax on accumulated unrepatriated foreign earnings, estimated at \$644.7 million, as a result of the Act. As of December 31, 2018, with the conclusion of the measurement period in accordance with SAB 118, we increased this amount by \$13.1 million to \$657.8 million, of which we expect cash payments of approximately \$290.3 million after offsets by the utilization of various tax attribute carryforwards in the U.S. This tax is payable over a period of eight years, with 8% of the transition tax payable each year for fiscal 2019 through fiscal 2023, and 15%, 20%, and 25%, respectively, payable during fiscal 2024, 2025, and 2026.
- (14) The contractual obligations do not include amounts related to uncertain tax positions because reasonable estimates cannot be made.

Purchase orders or contracts for the purchase of raw materials and other goods and services, with the exception of commitments to our wafer foundries, are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors with short time horizons. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Off-Balance Sheet Arrangements (Including Guarantees)

As of June 30, 2020, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K with the exception of standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by us or our subsidiaries. We have not recorded any liability in connection with these guarantee arrangements. Based on historical experience and information currently available, we believe we will not be required to make any payments under these guarantee arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2020, our long-term debt totaled \$10.20 billion. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$7.04 billion as of June 30, 2020. We do have interest rate exposure with respect to the \$3.16 billion balance of our variable interest rate debt outstanding as of June 30, 2020. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next 12 months by approximately \$15.8 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we evaluated under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that 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 June 30, 2020, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 10 to our condensed consolidated financial statements for information regarding legal proceedings.

Item 1A. Risk Factors

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

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

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

- general economic, industry, public health or political conditions in the U.S. or internationally, including ongoing uncertainty surrounding the COVID-19 pandemic and its implications;
- disruptions in our business, our supply chain or our customers' businesses due to public health concerns (including viral outbreaks such as the COVID-19 virus), cybersecurity incidents, terrorist activity, armed conflict, war, worldwide oil prices and supply, fires, natural disasters or disruptions in the transportation system;
- constrained availability from other electronic suppliers impacting our customers' ability to ship their products, which in turn may adversely impact our sales to those customers;
- 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;

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- the level of order cancellations or push-outs due to the impact of the COVID-19 pandemic or other factors;
- trade restrictions and changes in tariffs, including those impacting business in China, as well as those focused on specific companies;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- our ability to continue to realize the expected benefits of our past or future acquisitions;
- our ability to adjust our factory capacity to respond to changes in customer demand;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- changes or fluctuations in customer order patterns and seasonality;
- changes in tax regulations and policies in the U.S. and other countries in which we do business including the impact of the Act;
- new accounting pronouncements or changes in existing accounting standards and practices;
- levels of inventories held by our customers;
- risk of excess and obsolete inventories;
- competitive developments including pricing pressures;
- unauthorized copying of our products resulting in pricing pressure and loss of sales;
- availability of raw materials, supplies and equipment;
- our ability to successfully transition products to more advanced process technologies to reduce manufacturing costs;
- the level of orders that are received and can be shipped in a quarter, including the impact of product lead times;
- the level of sell-through of our products through distribution;
- fluctuations in our mix of product sales;
- announcements of other significant acquisitions by us or our competitors;
- costs and outcomes of any current or future tax audits or any litigation, investigation or claims involving intellectual property, our Microsemi acquisition, customers or other issues;
- fluctuations in commodity or energy prices; and
- property damage or other losses, whether or not covered by insurance.

We believe that period-to-period comparisons of our operating results are not necessarily meaningful and that you should not rely upon any such comparisons as indications of our future performance. In future periods, our operating results may fall below our public guidance or the expectations of public market analysts and investors, which would likely have a negative effect on the price of our common stock. Uncertain global economic and public health conditions, such as the COVID-19 pandemic, have caused or may cause our operating results to fluctuate significantly and make comparability between periods less meaningful.

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

We regularly review the financial performance of our licensees, customers, distributors and suppliers. However, any downturn in global economic conditions, as a result of the COVID-19 pandemic or otherwise, may adversely impact the financial viability of our licensees, customers, distributors or suppliers. The financial failure of a large licensee, customer or distributor, an important supplier, or a group thereof, could have an adverse impact on our operating results and could result in our not being able to collect our accounts receivable balances, higher reserves for doubtful accounts, write-offs for accounts receivable, and higher operating costs as a percentage of net sales.

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

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

- global economic and financial uncertainty due to the COVID-19 pandemic or other factors;
- quarterly variations in our operating results or the operating results of other technology companies;
- changes in our financial guidance or our failure to meet such guidance;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- general conditions in the semiconductor industry;
- our ability to realize the expected benefits of our completed or future acquisitions; and
- actual or anticipated announcements of technical innovations or new products by us or our competitors.

In addition, the stock market has recently and from time to time 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 the operating performance of such companies. These broad market fluctuations and other factors have harmed and may harm the market price of our common stock. Some or all of the foregoing factors could also cause the market price of our convertible debentures to decline or fluctuate substantially.

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

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. In May 2018, we completed our acquisition of Microsemi, which was our largest and most complex acquisition ever, and, in April 2016, we completed our acquisition of Atmel. The integration process for our acquisitions is complex and may be costly and time consuming and include unanticipated issues, expenses and liabilities. We may not be able to successfully or profitably integrate, operate, maintain and manage any newly acquired operations or employees. We may not be able to maintain uniform standards, procedures and policies and we may be unable to realize the expected synergies and cost savings from the integration. There may be increased risk due to integrating financial reporting and internal control systems. We may have difficulty in developing, manufacturing and marketing the products of a newly acquired company, or in growing the business at the rate we anticipate. Following an acquisition, we may not achieve the revenue or net income levels that justify the acquisition. We may suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. We have been and may in the future be subject to claims from terminated employees, shareholders of Microchip or the acquired companies and other third parties related to the transaction. In particular, in connection with our Microsemi and Atmel acquisitions, we became involved with third-party claims, litigation, governmental investigations and disputes related to such businesses and transactions. See Note 10 to our condensed consolidated financial statements for information regarding such matters. Acquisitions may also result in charges (such as acquisition-related expenses, write-offs, restructuring charges, or future impairment of goodwill), contingent liabilities, adverse tax consequences, additional share-based compensation expense and other charges that adversely affect our operating results. To fund our acquisition of Microsemi, we used a significant portion of our cash balances and incurred approximately \$8.10 billion of additional debt. We may fund future acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our Revolving Credit Facility, raising debt, issuing shares of our common stock, or other mechanisms.

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

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

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

As of June 30, 2020, the principal amount of our outstanding indebtedness was \$10.20 billion. In connection with our acquisition of Microsemi, we incurred debt consisting of \$3.10 billion under our revolving line of credit, \$3.00 billion under our term loan facility, and \$2.00 billion in senior secured notes. At June 30, 2020, we had \$1.45 billion in outstanding borrowings under our revolving line of credit which provides up to \$3.57 billion of revolving loan commitments that terminate in 2023. At June 30, 2020, we had \$1.71 billion of outstanding borrowings under our term loan facility.

In May 2020, we issued \$2.20 billion principal amount in senior notes to finance the cash portion of our settlement of \$1.03 billion in principal amount of our convertible debt and used \$615.0 million to repay in full all amounts outstanding under our bridge loan facility. The remaining proceeds were used for general corporate purposes, including repayment of a portion of our revolving line of credit. In March 2020, we financed the settlement of \$615.0 million in principal amount of our convertible debt through borrowings under our bridge loan facility. At June 30, 2020, we had \$2.84 billion in aggregate

principal amount of our convertible debt consisting of \$2.11 billion of aggregate principal value issued in 2017 and \$726.7 million of principal value issued in 2015.

As a result of such transactions, we have a substantially greater amount of debt than we had maintained prior to May 2018. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance our convertible debt, senior debt, term loan debt or any other future indebtedness and there can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.

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

Our ability to make scheduled payments of principal, to pay interest on or to refinance our indebtedness, including our outstanding convertible debt and senior notes, depends on our future performance, which is subject to economic, financial, competitive and other factors including uncertainties related to the COVID-19 pandemic. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and to fund capital expenditures, dividend payments, share repurchases or acquisitions. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. Our senior secured notes are rated by certain major credit rating agencies. These credit ratings impact our cost of borrowing and our ability to access the capital markets and are based on our financial performance and certain financial metrics including debt levels. There can be no assurance that we will be able to maintain our current credit ratings. Any downgrade of our credit rating by any of the major credit rating agencies could result in increased borrowing costs and could adversely affect our ability to access the debt markets to refinance our existing debt or finance future debt.

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

Our net sales in any given quarter depend upon a combination of shipments from backlog and customer orders that are both received and shipped in that same quarter, which we refer to as turns orders. We measure turns orders at the beginning of a quarter based on the orders needed to meet the shipment targets that we set entering the quarter. Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduce our backlog visibility on future product shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times. Because turns orders are difficult to predict, especially in times of economic volatility such as those caused by the COVID-19 pandemic where customers may increase or decrease order levels within the quarter, varying levels of turns orders make it more difficult to forecast net sales. As a significant portion of our products are manufactured at foundries, foundry lead times may affect our ability to satisfy certain turns orders. If we do not achieve a sufficient level of turns orders in a particular quarter relative to our revenue targets, our revenue and operating results will likely suffer.

We may lose sales if suppliers of raw materials, components or equipment fail to meet our or our customers' needs or increase costs due to the impact of the COVID-19 pandemic, increased tariffs or other factors.

Our semiconductor manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have more than one source for these supplies, but there are only a limited number of suppliers capable of delivering various materials and equipment that meet our standards. The materials and equipment necessary for our business could become more difficult to obtain as worldwide use of semiconductors in product applications increases. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change the relationships that we have with our suppliers. Also, the impact of the COVID-19 pandemic or the application of trade restrictions or tariffs by the U.S. or other countries may adversely impact the industry supply chain. For example, in 2019, the U.S. government increased tariffs on products that have China as their country of origin and which are imported into the U.S. Likewise, the China government increased tariffs on products that have the U.S. as their country of origin and which are imported into China. We have taken steps to attempt to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2020 and fiscal 2019. The additional tariffs imposed on components or equipment that we or our suppliers source from China will increase our costs and could have a material adverse impact on our operating results in the three months ending September 30, 2020 or future periods. We may also incur increases in manufacturing costs in mitigating the impact of tariffs on our operations. This could also impair sourcing flexibility. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time than expected to fill our orders or that they will no longer support certain equipment with updates or spare and replacement parts. In particular, we have recently experienced longer lead times for some assembly raw materials required for production purposes. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business.

Our customers may also be adversely affected by these same issues. The materials, components and equipment necessary for their businesses could become more difficult to obtain for various reasons not limited to business interruptions of suppliers, consolidation in their supply chain due to mergers and acquisitions, the impact of the COVID-19 pandemic or application of trade restrictions or tariffs that impair sourcing flexibility or increase costs. If our customers are not able to produce their products, then their need for our products will decrease. Such interruptions of our customers' businesses could harm our business.

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

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

- the relative impact of the COVID-19 pandemic on us relative to our competitors;
- changes in demand in the markets that we serve and the overall rate of growth or contraction of such markets, including but not limited to the automotive, personal computing and consumer electronics markets;
- our ability to obtain adequate foundry and assembly and test capacity and supplies of raw materials and other supplies at acceptable prices;
- the quality, performance, reliability, features, ease of use, pricing and diversity of our products;
- our success in designing and manufacturing new products including those implementing new technologies;
- the rate at which customers incorporate our products into their own applications and the success of such applications;
- the rate at which the markets that we serve redesign and change their own products;
- our ability to ramp production and increase capacity, as needed, at our wafer fabrication and assembly and test facilities;
- product introductions by our competitors;
- the number, nature and success of our competitors in a given market;
- our ability to protect our products and processes by effective utilization of intellectual property rights;
- our ability to remain price competitive against companies that have copied our proprietary product lines, especially in countries where intellectual property rights protection is difficult to achieve and maintain;

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- our ability to address the needs of our customers; and
- general market and economic conditions.

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

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

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

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. Specifically, during the first three months of fiscal 2021 and during fiscal 2020, approximately 61% of our net sales came from products that were produced at outside wafer foundries. We also use several contractors located primarily in Asia for a portion of the assembly and testing of our products. Specifically, during the first three months of fiscal 2021, approximately 53% of our assembly requirements and 45% of our test requirements were performed by third party contractors compared to approximately 55% of our assembly requirements and 46% of our test requirements during fiscal 2020. Our reliance on third party contractors decreased due to our investments in assembly and test equipment, which increased our internal capacity capabilities, and also due to adverse demand fluctuations in the markets we serve, which reduced our demand for external assembly and test operations.

Our use of third parties somewhat reduces our control over the subcontracted portions of our business. Our future operating results could suffer if any contractor were to experience financial, operational or production difficulties or situations when demand exceeds capacity, or if they were unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels due to disruptions from the COVID-19 pandemic, or if the countries in which such contractors are located were to experience political upheaval or infrastructure disruption. If these third parties are unable or unwilling to timely deliver products or services conforming to our quality standards, we may not be able to qualify additional manufacturing sources for our products in a timely manner on terms favorable to us, or at all. Additionally, these subcontractors could abandon fabrication processes that are important to us, or fail to adopt advanced manufacturing technologies that we desire to control costs. In any such event, we could experience an interruption in production, an increase in manufacturing and production costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, our use of subcontractors increases the risks of potential misappropriation of our intellectual property.

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

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

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

months of fiscal 2021 and fiscal 2020, we operated at below normal capacity levels resulting in unabsorbed capacity charges of \$13.9 million and \$7.3 million, respectively.

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

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Historically, since a significant portion of our revenue is from consumer markets and international sales, our business tends to generate stronger revenues in the first and second quarters and comparatively weaker revenues in the third and fourth quarters of our fiscal year. However, broad fluctuations in our overall business, changes in semiconductor industry and global economic conditions (including the impact of the COVID-19 pandemic or trade tensions) and our acquisition activity (including our acquisition of Microsemi) have had and can have a more significant impact on our results than seasonality. As a result, in periods when these broad fluctuations, changes in business conditions or acquisitions occur, it is difficult to assess the impact of seasonal factors on our business. The semiconductor industry has also experienced significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclically by selling proprietary products, that cannot be easily or quickly replaced, to a geographically diverse customer base across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions.

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

Sales to distributors accounted for approximately 50% of our net sales in the first three months of fiscal 2021 and in fiscal 2020. We do not have long-term agreements with our distributors, and we and our distributors may each terminate our relationship with little or no advance notice.

Any future adverse conditions in the U.S. or global economies (including the impact of the COVID-19 pandemic) or in the U.S. or global credit markets could materially impact the operations of our distributors. Any deterioration in the financial condition of our distributors or any disruption in the operations of our distributors could adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry or economic downturn, it is possible there will be an oversupply of products and a decrease in demand for our products from our distributors, which could reduce our net sales in a given period and result in an increase in inventory returns. Violations of the Foreign Corrupt Practices Act, or similar laws, by our distributors or other channel partners could have a material adverse impact on our business.

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

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

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

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

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

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

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

From time to time, we have experienced verifiable attacks on our data, network compromises, attempts to breach our security and attempts to introduce malicious software into our IT systems. For example, in fiscal 2019, we learned of an ongoing compromise of our computer networks by what is believed to be sophisticated hackers. We engaged experienced legal counsel and a leading forensic investigatory firm with experience in such matters. We took various steps to identify malicious activity on our network including a compromise of our network and, in May 2019, we began implementing a containment plan. We routinely evaluate the effectiveness of the containment mechanisms that were implemented and continue to implement additional measures from time to time. We have analyzed and continue to analyze the amount and content of the information that was compromised. We do not believe that this IT system compromise has had a material adverse effect on our business or resulted in any material damage to us. As a result of the IT system compromise, our management, including our chief executive officer and our chief financial officer, concluded that our internal controls related to IT system access were not effective resulting in a material weakness in our internal controls for fiscal 2019. Although this material weakness in our internal controls was remediated in fiscal 2020, there can be no assurance that similar control issues will not be identified in future periods.

Due to the types of products we sell and the significant amount of sales we make to government agencies or customers whose principal sales are to U.S. government agencies, we expect to continue to be the target of attacks on our data, attempts to breach our security, network compromises and attempts to introduce malicious software into our IT systems. Were any future attacks to be successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. In recent years, we have regularly implemented improvements to our protective measures which include, but are not limited to, the following: firewalls, endpoint detection and response software, patches, log monitors, event correlation tools, routine backups with offsite retention of storage media, system audits, dual factor identification, data partitioning and routine password modifications. As a result of the material weakness in our internal controls resulting from the IT systems compromise in 2019, we have taken remediation actions and implemented additional controls and we plan to continue to take further actions to attempt to address evolving threats. However, recent system improvements have not been fully effective in preventing attacks on our data and breaches to our security, and there can be no assurance that any future system improvements will be effective in preventing attacks or breaches or limiting the damage from any future cyber attacks or disruptions. Such system improvements have resulted in increased costs to us and any future improvements, attacks or disruptions could result in additional costs related to rebuilding of our internal systems, defending litigation, providing notices to regulatory agencies or other third parties, responding to regulatory actions, or paying damages. Such attacks or disruptions could have a material adverse impact on our business, operations and financial results.

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

If we fail to maintain proper and effective internal control and remediate 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 investors' views of us.

As discussed in Item 9A "Controls and Procedures" in our annual report on Form 10-K for the fiscal year ended March 31, 2019, we identified a material weakness in our internal controls related to accounting for income taxes and we also identified a material weakness in our internal controls related to IT system access. Although such material weaknesses were remediated in

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fiscal 2020, internal controls are important to accurately reflect our financial position and results of operations in our financial reports and there can be no assurance that similar control issues will not be identified in future periods. If we are unable to remediate any future material weaknesses or significant deficiencies in an appropriate and timely manner, or if we identify additional control deficiencies that individually or together constitute significant deficiencies or material weaknesses, our ability to accurately record, process, and report financial information and consequently, our ability to prepare financial statements within required time periods, could be adversely affected. Failure to maintain effective internal controls could result in violations of applicable securities laws, stock exchange listing requirements, and the covenants under our debt agreements, subject us to litigation and investigations, negatively affect investor confidence in our financial statements, and adversely impact our stock price and ability to access capital markets.

Ensuring that we have adequate internal financial and accounting controls and procedures so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 which requires an annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. In addition to the identified material weaknesses related to accounting for income taxes and to IT system access, which were remediated as of March 31, 2020, we have from time to time identified significant deficiencies related to other matters. 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.

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

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

Business interruptions to our operations or the operations of our key vendors, subcontractors, licensees or customers, whether due to public health concerns (such as the COVID-19 virus), natural disasters, cybersecurity incidents, or other events, 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 or customers may be disrupted for reasons beyond our control. These reasons may include public health concerns (including viral outbreaks such as the COVID-19 virus), work stoppages, power loss, insufficient water, cyber attacks, computer network compromises, incidents of terrorism or security risk, political instability, public health issues, telecommunications, transportation or other infrastructure failure, radioactive contamination, fire, earthquake, floods, droughts, volcanic eruptions or other natural disasters. We have taken steps to mitigate the impact of some of these events should they occur; however, we cannot be certain that our actions will be effective to avoid a significant impact on our business in the event of a disaster or other business interruption. For example, recent restrictions on travel have adversely impacted our manufacturing operations in the Philippines and our subcontractors' manufacturing operations in Malaysia and China. Similar challenges have arose for our logistics service providers, which adversely impacted their ability to ship product to our customers.

The overall adverse impact of such interruptions on our lead times and ability to fulfill orders was significant in the early part of the fiscal quarter ended June 30, 2020, but improved as the quarter progressed. However, the pandemic could adversely impact our business in the fiscal quarter ended September 30, 2020 and could continue to adversely impact our business in future periods if the number of COVID-19 cases increases. In the future, local governments could require us to temporarily reduce production further or cease operations at any of our facilities and we could experience constraints in fulfilling customer orders.

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

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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 any future flooding in Thailand would not have a material adverse impact on our operations. If operations at any of our facilities, or our subcontractors' facilities are interrupted, we may not be able to shift production to other facilities on a timely basis, and we may need to spend significant amounts to repair or replace our facilities and equipment. If we experienced business interruptions, we would likely experience delays in shipments of products to our customers and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues and profits and the cancellation of orders or loss of customers. Although we maintain business interruption insurance, such insurance will likely not be enough to compensate us for any losses that may occur and any losses or damages incurred by us as a result of business interruptions could significantly harm our business.

Our technology licensing business exposes us to various risks.

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

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

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

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

We are currently, and in the future may be, involved in legal proceedings, investigations or claims regarding patent infringement, other intellectual property rights, product failures, our Microsemi acquisition, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from third parties from time to time who believe that we owe them indemnification or other obligations related to claims made against us, our direct or indirect customers or our licensees. These legal proceedings and claims, even if meritless, have in the past and could in the future result in substantial costs to us and divert our resources. If we are not able to resolve a claim, settle a matter, obtain necessary licenses on commercially reasonable terms, reengineer our products or processes to avoid infringement, provide a cost-effective remedy, or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take an appropriate charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, and our business, financial condition or results of operations could be harmed.

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

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

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

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

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

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

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

A significant portion of our sales are made through the exporting and importing of products. In addition to local jurisdictions' trade regulations, our U.S.-manufactured products or products based on U.S. technology are subject to U.S. laws and regulations governing international trade, including, but not limited to the Foreign Corrupt Practices Act, Export Administration Regulations, International Traffic in Arms Regulations and trade sanctions against embargoed countries and denied entities administered by the U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC). Licenses or proper license exceptions are required for the shipment of our products to certain countries. A determination by the U.S. or foreign government that we have failed to comply with trade or export regulations or anti-bribery regulations can result in penalties which may include denial of export privileges, fines, civil or criminal penalties, and seizure of products. Such penalties could have a material adverse effect on our business, sales and earnings. Further, a change in these laws and regulations could restrict our ability to transfer product to previously permitted countries, customers, distributors or other third parties. For example, in fiscal 2019, the U.S. Commerce Department banned U.S. companies from selling products or transferring technology to ZTE, a Chinese company, and certain of its subsidiaries. This ban was lifted in July 2018. In fiscal 2020, the U.S. Commerce Department banned U.S. companies from selling products or transferring technology to certain Chinese companies, including Huawei and certain of its subsidiaries. In fiscal 2020, the U.S. Federal Acquisition Regulation

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prohibited U.S. governmental agencies from buying equipment using covered telecommunications equipment as a substantial component or critical technology where the technology came from certain Chinese companies. On July 14, 2020, this prohibition 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 directly relevant to the procurement. Recent amendments made to the Export Administration Regulation (EAR) pursuant to prohibitions of items with a “military end use” in China, Russia, and Venezuela, 85 Fed. Reg. 23459, and elimination of EAR License Exception CIV, 85 Fed. Reg. 23470, which were effective June 2020, apply to a greater number of our products than previous versions of the regulations. Any one or more of the foregoing changes could adversely impact our operational costs due to the administrative impacts of complying with these regulations, and may limit those with whom we conduct business. Any one or more of these sanctions, future sanctions, a change in laws or regulations, or a prohibition on shipment of our products or transfer of our technology to significant customers could have a material adverse effect on our business, financial condition and results of operations.

For certain of our products associated with our Microsemi acquisition, we rely on U.S. export licenses to ship our products to non-U.S. customers. In 2018, there was a federal government shutdown from January 20, 2018 to January 23, 2018 and a second shutdown from December 22, 2018 through January 25, 2019. Due to the U.S. federal government shutdown, the agency that approves these export licenses was temporarily closed. This resulted in a delay in certain shipments that were scheduled to ship within the quarter. Although this delay did not result in a material adverse impact on our revenue in previous quarters, it could have a material adverse impact on our revenue within the quarter of any future government shutdown, and in the following quarter depending on the ability of the governmental agency to expedite processing of licenses delayed during the shutdown. Additionally, certain of our products associated with our Microsemi acquisition ship from jurisdictions that Microchip did not previously ship from. This makes us subject to different jurisdictional export regulations for different products. Although a delay in approval of exports from any single jurisdiction is unlikely to result in a material adverse impact on our revenue in the short term, a denial in approval of exports could over the longer term have a negative 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 on materials and products, and introduced national security protection policies. Trade tensions between the U.S. and China escalated in 2018 and 2019, including the U.S. increasing tariffs on Chinese origin goods, and China increasing tariffs on U.S. goods. Some of our products were adversely affected and are continuing to be affected by the increased tariffs. Higher duties on existing tariffs and further rounds of tariffs were announced as recently as September 2019. We have taken steps to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business, they did, however, adversely impact demand for our products during fiscal 2020 and fiscal 2019. The additional tariffs imposed in 2019 on components or equipment that we or our suppliers source from China increased our costs but did not have a material adverse impact on our operating results in fiscal 2020 as we were able to make adjustments in operations and supply to mitigate the effects of these tariffs. Increased tariffs on our customers' products could impact their sales of their products, and increased tariffs on our products in comparison to those of our competitors could each result in lower demand for our products.

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

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

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

A strong position in the Chinese market is a key component of our global growth strategy. The market for integrated circuit products in China is highly competitive, and both international and domestic competitors are aggressively seeking to increase their market share. Increased competition and, economic weakness in the China market has recently made it more difficult for us to achieve our desired sales volumes in China. In particular, the trade relationship between the U.S. and China has worsened, economic conditions in China remain uncertain, and we are unable to predict whether such uncertainty will continue or worsen in future periods. In 2019, the U.S. government increased tariffs on products that have China as their country of origin and which are imported into the U.S. Likewise, the China government increased tariffs on products that have the U.S. as their country of origin and which are imported into China. We have taken steps to mitigate the costs of these tariffs on our business. Although these increases in tariffs did not result in significant increases to the operating costs of our business,

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they did, however, adversely impact demand for our products during fiscal 2020 and fiscal 2019. The additional tariffs imposed on components or equipment that we or our suppliers source from China did increase our costs but did not have a material adverse impact on our operating results in fiscal 2020 as we were able to make adjustments in operations and supply to mitigate the effects of these tariffs. Additionally, tariffs on our customers' products could impact their sales of such end products, resulting in lower demand for our products. We may also incur increases in manufacturing costs in mitigating the impact of tariffs on our customers.

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

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

- political, social and economic instability due to the COVID-19 pandemic or other factors;
- trade restrictions and changes in tariffs;
- potentially adverse tax consequences;
- economic uncertainty in the worldwide markets served by us;
- import and export license requirements and restrictions;
- changes in rules and laws related to taxes, environmental, health and safety, technical standards and consumer protection in various jurisdictions;
- currency fluctuations and foreign exchange regulations;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions due to cybersecurity incidents;
- disruptions in international transport or delivery;
- public health conditions (including viral outbreaks such as the COVID-19 virus); and
- difficulties in collecting receivables and longer payment cycles.

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

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

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

We do not typically enter into long-term contracts with our non-distributor customers, and therefore we cannot be certain about future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. Even though we had approximately 120,000 customers and our ten largest direct customers made up approximately 14% of our total revenue for the three months ended June 30, 2020 and five of our top ten direct customers are contract manufacturers that perform manufacturing services for many customers, cancellation of customer contracts could have an adverse impact on our revenue and profits. Due to uncertainty related to the COVID-19 pandemic, we have seen an increase in order cancellations and requests to reschedule deliveries to future dates.

We have contracts with certain customers that differ from our standard terms of sale. For several of the significant markets that we sell into, such as the automotive and personal computer markets, our current or potential customers may possess significant leverage over us in negotiating the terms and conditions of supply as a result of their market size and position. For example, under certain contracts we may commit to supply specific quantities of products on scheduled delivery dates, or agree to extend our obligations for certain liabilities such as warranties or indemnification for quality issues or claims of intellectual

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

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

A significant portion of the sales of Microsemi, which we acquired in May 2018, are from or are derived from government agencies or customers whose principal sales are to U.S. government agencies. Such sales are subject to uncertainties regarding governmental spending levels, spending priorities, regulatory and policy changes. Future sales to U.S. government agencies or their prime customers are also subject to uncertain government appropriations and national defense policies and priorities, including the constraints of the budgetary process, changes in the timing and potential spending priorities and the impact of any past or future government shutdowns, contract terminations or renegotiations, future sequestrations, or the impact of the COVID-19 pandemic. For example, as a result of the COVID-19 pandemic, we have experienced suspensions and stop work orders for some of our subcontracts. Although such actions have not yet had a material adverse impact on our business, there can be no assurance as to the future costs or implications of such actions. Sales to government agencies or customers whose principal sales are to U.S. government agencies are also subject to uncertainties related to monetary, regulatory, tax and trade policies implemented by current or future administrations or by the U.S. Congress.

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

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

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

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

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

We use forward currency exchange contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the value of our non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition. In particular, in periods when a foreign currency significantly declines in value in relation to the U.S. dollar, customers transacting in that foreign currency may find it more difficult to fulfill their previously committed contractual obligations or to undertake new obligations to make payments or purchase products. In periods when the U.S. dollar is significantly declining in relation to the British pound, Euro, Thai baht 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.

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

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

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

We must comply with all applicable federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous substances used in our products and manufacturing processes. Our failure to comply, or the failure of entities that we have acquired over time to have complied, with applicable regulations could result in significant fines, liability for clean up, suspension of production, cessation of operations or future liabilities. Such environmental regulations have required us in the past, and could require us in the future, to buy costly equipment or to incur significant expenses to comply with such regulations. Our failure to control the use of, or adequately restrict the discharge of, hazardous substances could impact the health of our employees and others and could impact our ability to operate. Such failure could also restrict our ability to ship certain products to certain countries, require us to modify our operations' logistics, or require us to incur other significant costs and expenses. There is a continuing expansion in environmental laws with a focus on reducing or eliminating hazardous substances and substances of high concern in electronic products and shipping materials. These and other future environmental regulations could require us to reengineer certain of our existing products and may make it more expensive for us to manufacture, sell and ship our products. In addition, the number and complexity of laws focused on the energy efficiency of electronic products and accessories, the recycling of electronic products, and the reduction in the quantity and the recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may not have sufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may also have to write off inventory in the event that we hold unsaleable inventory as a result of changes to regulations or customer requirements. We expect these risks and trends to continue. In addition, we anticipate increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances of high concern in our products, energy efficiency measures, and supplier practices associated with sourcing and manufacturing. These requirements may increase our own costs, as well as those passed on to us by our supply chain.

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

Some of our customers and potential customers are requiring that we implement operating practices that are more stringent than what is required by applicable laws with respect to workplace and labor requirements, the type of materials we use in our products, environmental matters or other items. To comply with such requirements, we pass these requirements regarding operating practices on to our suppliers. Our suppliers may in the future refuse to implement these operating practices, or may charge us more for complying with them. If certain of our suppliers refuse to implement the required practices, we may be forced to identify and source from alternate suppliers. The cost to implement such practices may cause us to incur higher costs.

and reduce our profitability, and if we choose not to implement such practices, such customers may disqualify us as a supplier, resulting in decreased revenue opportunities. Developing, administering, monitoring and auditing these customer-requested practices at our own sites and those in our supply chain will increase our costs and may require that we hire more personnel.

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

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released investigation, disclosure and reporting requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and which are necessary to the functionality or production of products. We filed a report on Form SD with the SEC regarding such matters on May 29, 2020. Other countries are considering similar regulations. If we cannot certify that our supply chain is free from the risk of irresponsible sourcing, customers may demand that we change the sourcing of minerals and other materials used in the manufacture of our products, even if the costs for compliant minerals and materials significantly increases and availability is limited. If we make changes to materials or suppliers, there will likely be costs associated with qualifying new suppliers and production capacity and quality could be negatively impacted. Our relationships with customers and suppliers may be adversely affected if we are unable to certify that our products are free from the risk of irresponsible sourcing. We have incurred, and expect in the future to incur, additional costs associated with complying with these new disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict free in a materially different manner than advocated by the Responsible Minerals Initiative or the Dodd-Frank Wall Street Reform and Consumer Protection Act. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold.

In addition to concerns over "conflict" minerals mined from the Democratic Republic of Congo, our customers may also begin to require that additional minerals and substances used within our supply chain be evaluated and reported on. As our reporting obligations increase so will the operating costs associated with this obligation. This in turn could have negative effects on our overall operating profits.

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

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

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

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

Our income tax expense is computed based on tax rates at the time of the respective financial period. Our future effective tax rates, financial condition and results from operations could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in the tax rules and regulations or the interpretation of tax rules and regulations in the jurisdictions in which we do business or by changes in the valuation of our deferred tax assets.

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

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taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Shifting Project, and issued a report in 2015, an interim report in 2018, and is expected to continue to issue guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. Similarly, the European Commission and several countries have issued proposals that would change various aspects of the current tax framework under which we are taxed. These proposals include changes to the existing framework to calculate income tax, as well as proposals to change or impose new types of non-income taxes, including taxes based on a percentage of revenue.

In April 2020, we became aware of a withholding tax regulation that could be interpreted to apply to certain of our previous intra-group transactions. During the first quarter of fiscal 2021, we evaluated the interpretations of these rules as it applies to our facts and circumstances for tax years remaining open under the applicable statutes of limitation and in response we recorded an immaterial income tax expense during the period.

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

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

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

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

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

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

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. As of June 30, 2020, we had goodwill of \$6.66 billion and net intangible assets of \$5.49 billion. In connection with the completion of our acquisition of Microsemi in May 2018, our balance of goodwill and intangible assets increased significantly. We review our indefinite-lived intangible assets, including goodwill, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets is more likely than not impaired. Factors that may be considered in assessing whether goodwill or intangible assets may be impaired include a decline in our stock price or market capitalization, reduced estimates of future cash

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flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Because we operate in highly competitive environments, projections of our future operating results and cash flows may vary significantly from our actual results. No goodwill impairment charges were recorded in fiscal 2021 or fiscal 2020. No intangible asset impairment charges were recorded in fiscal 2021 compared to \$2.2 million in fiscal 2020. If in future periods, we determine that our goodwill or intangible assets are impaired, we will be required to write down these assets which would have a negative effect on our condensed consolidated financial statements.

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

In connection with our acquisitions of Microsemi and Atmel, we assumed defined benefit pension plans that cover certain of our French and German employees. Plan benefits are managed in accordance with local statutory requirements. Benefits are based on years of service and employee compensation levels. The projected benefit obligation totaled \$70.0 million at March 31, 2020. Most of these plans are unfunded in compliance with local statutory regulations, and we have no immediate intention of funding these plans. Benefits are paid when amounts become due, commencing when participants retire. We expect to pay approximately \$1.3 million in fiscal 2021 for benefits earned. Should legislative regulations require complete or partial funding of these plans in the future, it could negatively affect our cash position and operating capital.

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

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

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

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

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

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

of complying, or of failing to comply, with these and other climate change and emissions regulations could have an adverse effect on our operating results.

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

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

We did not repurchase any shares of our common stock in the three months ended June 30, 2020.

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Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File Number	Exhibit	Filing Date	Included Herewith
3.1	Restated Certificate of Incorporation of Registrant	10-Q	000-21184	3.1	11/12/2002	
3.2	Amended and Restated Bylaws of Registrant, as amended through May 21, 2019	8-K	000-21184	3.1	5/24/2019	
4.1	Senior Secured Notes Indenture, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee and collateral agent	8-K	000-21184	4.1	6/3/2020	
4.2	Senior Notes Indenture, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee	8-K	000-21184	4.2	6/3/2020	
4.3	Form of 2.670% Senior Secured Note due 2023 (included in Exhibit 4.1)	8-K	000-21184	4.3	6/3/2020	
4.4	Form of 4.250% Senior Note due 2025 (included in Exhibit 4.2)	8-K	000-21184	4.4	6/3/2020	
10.1	Amended and Restated Credit Agreement, dated as of May 29, 2018, by and among Microchip Technology Incorporated, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-21184	10.1	5/29/2018	
10.2	Purchase Agreement, dated as of May 26, 2020, by and among Microchip Technology Incorporated, subsidiary guarantors named therein and J.P. Morgan Securities LLC and Wells Fargo Securities, LLC, as representatives of the several initial purchasers named therein	8-K	000-21184	10.1	5/27/2020	
10.3	Purchase Agreement, dated as of May 26, 2020, by and among Microchip Technology Incorporated, subsidiary guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers named therein	8-K	000-21184	10.2	5/27/2020	
10.4	Pledge and Security Agreement, dated as of May 29, 2020, by and among Microchip Technology Incorporated, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as collateral agent	8-K	000-21184	10.1	6/3/2020	
10.5	2004 Equity Incentive Plan as Amended and Restated on July 1, 2020					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X

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Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)				
32*	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive File because its XBRL tags are embedded within the Inline XBRL document				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document				

* Furnished herewith.

SIGNATURES

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

MICROCHIP TECHNOLOGY INCORPORATED

Date: August 4, 2020

By: /s/ J. Eric Bjornholt

J. Eric Bjornholt

Senior Vice President and Chief Financial Officer

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