MICROCHIP TECHNOLOGY INC
Form 10-Q
November 09, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015.

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21184

MICROCHIP TECHNOLOGY INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | o |
| (Do not check if a smaller reporting company) | | | |

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

Shares Outstanding of Registrant's Common Stock

| Class | Outstanding at October 28, 2015 |
|---|---|
| Common Stock, $0.001 par value | 203,122,333 shares |

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

INDEX

Table of Contents

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

Item1. Financial Statements

| ASSETS | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $539,078 | $607,815 |
| Short-term investments | 1,462,466 | 1,351,054 |
| Accounts receivable, net | 281,063 | 273,937 |
| Inventories | 363,760 | 279,456 |
| Prepaid expenses | 38,553 | 34,717 |
| Deferred tax assets | 69,343 | 71,045 |
| Assets held for sale | — | 13,989 |
| Other current assets | 24,624 | 32,604 |
| Total current assets | 2,778,887 | 2,664,617 |
| Property, plant and equipment, net | 631,600 | 581,572 |
| Long-term investments | 584,910 | 383,326 |
| Goodwill | 1,008,720 | 571,271 |
| Intangible assets, net | 702,383 | 504,417 |
| Other assets | 79,809 | 75,510 |
| Total assets | $5,786,309 | $4,780,713 |
| LIABILITIES AND EQUITY | | |
| Accounts payable | $72,362 | $86,866 |
| Accrued liabilities | 119,452 | 100,978 |
| Deferred income on shipments to distributors | 179,962 | 166,128 |
| Total current liabilities | 371,776 | 353,972 |
| Long-term line of credit | 1,296,452 | 461,952 |
| Senior convertible debentures | 1,197,792 | 1,174,036 |
| Junior convertible debentures | 193,630 | 190,870 |
| Long-term income tax payable | 107,459 | 114,336 |
| Long-term deferred tax liability | 448,777 | 381,192 |
| Other long-term liabilities | 41,042 | 43,329 |
| 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; 227,416,789 shares issued and 203,052,463 shares outstanding at September 30, 2015; 218,789,994 shares issued and 202,080,306 shares outstanding at March 31, 2015 | 203 | 202 |
| Additional paid-in capital | 1,382,818 | 999,515 |
| Common stock held in treasury: 24,364,326 shares at September 30, 2015; 16,709,688 shares at March 31, 2015 | (850,635) | (515,679) |
| Accumulated other comprehensive (loss) income | (3,095) | 11,076 |
| Retained earnings | 1,600,090 | 1,549,540 |
| Microchip Technology stockholders' equity | 2,129,381 | 2,044,654 |

| | | |
|---|---|---|
| Noncontrolling interests | — | 16,372 |
| Total equity | 2,129,381 | 2,061,026 |
| Total liabilities and equity | $5,786,309 | $4,780,713 |

See accompanying notes to condensed consolidated financial statements

Table of Contents

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | $541,391 | $546,243 | $1,075,343 | $1,075,119 |
| Cost of sales (1) | 240,441 | 238,789 | 465,376 | 461,146 |
| Gross profit | 300,950 | 307,454 | 609,967 | 613,973 |
| Operating expenses: | | | | |
| Research and development (1) | 95,256 | 88,814 | 179,936 | 173,184 |
| Selling, general and administrative (1) | 80,258 | 71,114 | 147,107 | 140,369 |
| Amortization of acquired intangible assets | 43,840 | 45,433 | 78,452 | 82,077 |
| Special charges, net | 6,648 | 775 | 8,205 | 1,079 |
| | 226,002 | 206,136 | 413,700 | 396,709 |
| Operating income | 74,948 | 101,318 | 196,267 | 217,264 |
| Losses on equity method investments | (56) | (35) | (233) | (67) |
| Other income (expense): | | | | |
| Interest income | 6,405 | 4,531 | 11,933 | 9,273 |
| Interest expense | (25,644) | (14,019) | (49,696) | (27,697) |
| Other (expense) income, net | (1,696) | (1,091) | 15,251 | (1,078) |
| Income before income taxes | 53,957 | 90,704 | 173,522 | 197,695 |
| Income tax (benefit) provision | (10,942) | (1,334) | (21,837) | 15,748 |
| Net income | 64,899 | 92,038 | 195,359 | 181,947 |
| Less: Net loss attributable to noncontrolling interests | — | 1,603 | 207 | 1,603 |
| Net income attributable to Microchip Technology | $64,899 | $93,641 | $195,566 | $183,550 |
| Basic net income per common share attributable to Microchip Technology stockholders | $0.32 | $0.47 | $0.96 | $0.92 |
| Diluted net income per common share attributable to Microchip Technology stockholders | $0.30 | $0.42 | $0.90 | $0.82 |
| Dividends declared per common share | $0.3580 | $0.3560 | $0.7155 | $0.7115 |
| Basic common shares outstanding | 204,275 | 200,629 | 203,254 | 200,408 |
| Diluted common shares outstanding | 217,099 | 225,284 | 216,933 | 224,906 |
| (1) Includes share-based compensation expense as follows: | | | | |
| Cost of sales | $2,398 | $2,640 | $4,055 | $4,695 |
| Research and development | 8,670 | 7,261 | 15,768 | 13,570 |
| Selling, general and administrative | 11,958 | 5,372 | 17,315 | 10,329 |

See accompanying notes to condensed consolidated financial statements

Table of Contents

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $64,899 | $92,038 | $195,359 | $181,947 |
| Less: Net loss attributable to noncontrolling interests | — | 1,603 | 207 | 1,603 |
| Net income attributable to Microchip Technology | 64,899 | 93,641 | 195,566 | 183,550 |
| | | | | |
| Components of other comprehensive income (loss): | | | | |
| Available-for-sale securities: | | | | |
| Unrealized holding gains (losses), net of tax effect of $0, $0, $0 and $12, respectively | 2,082 | (3,465) | 70 | (405) |
| Reclassification of realized transactions, net of tax effect of $0, $0, $0 and $12, respectively | (6) | (62) | (13,965) | (84) |
| Change in net foreign currency translation adjustment | — | (6,234) | — | (6,234) |
| Other comprehensive income (loss), net of taxes | 2,076 | (9,761) | (13,895) | (6,723) |
| Less: Other comprehensive loss attributable to noncontrolling interests | — | 1,015 | — | 1,015 |
| Other comprehensive income (loss) attributable to Microchip Technology | 2,076 | (8,746) | (13,895) | (5,708) |
| | | | | |
| Comprehensive income | 66,975 | 82,277 | 181,464 | 175,224 |
| Less: Comprehensive loss attributable to noncontrolling interests | — | 2,618 | 207 | 2,618 |
| Comprehensive income attributable to Microchip Technology | $66,975 | $84,895 | $181,671 | $177,842 |

See accompanying notes to condensed consolidated financial statements

Table of Contents

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

| | Six Months Ended September 30, 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $195,359 | $181,947 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 131,484 | 131,809 |
| Deferred income taxes | (35,999) | (4,497) |
| Share-based compensation expense related to equity incentive plans | 37,138 | 28,594 |
| Excess tax benefit from share-based compensation | (407) | (982) |
| Amortization of debt discount on convertible debentures | 23,746 | 4,810 |
| Amortization of debt issuance costs | 1,920 | 1,088 |
| Losses on equity method investments | 233 | 67 |
| Gain on sale of assets | (860) | — |
| Impairment of intangible assets | 530 | 556 |
| Realized gain on available-for-sale investment | (13,959) | — |
| Realized gain on equity method investment | (2,225) | — |
| Amortization of premium on available-for-sale investments | 4,732 | 5,066 |
| Special charges | 511 | — |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 5,170 | (29,429) |
| (Increase) decrease in inventories | (4,597) | 32,052 |
| Increase in deferred income on shipments to distributors | 13,492 | 11,787 |
| Decrease in accounts payable and accrued liabilities | (31,443) | (15,817) |
| Change in other assets and liabilities | 6,589 | 10,783 |
| Net cash provided by operating activities | 331,414 | 357,834 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale investments | (1,112,089) | (350,598) |
| Sales and maturities of available-for-sale investments | 795,771 | 547,037 |
| Sale of equity method investment | 2,667 | — |
| Acquisition of Micrel, net of cash acquired | (343,928) | — |
| Acquisition of ISSC, net of cash acquired | — | (252,469) |
| Purchase of additional controlling interest in ISSC | (18,051) | (1,765) |
| Acquisition of Supertex, net of cash acquired | — | (375,365) |
| Investments in other assets | (2,981) | (3,659) |
| Proceeds from sale of assets | 14,296 | — |
| Capital expenditures | (63,554) | (83,372) |
| Net cash used in investing activities | (727,869) | (520,191) |
| Cash flows from financing activities: | | |
| Repayments of revolving loan under credit facility | (190,000) | (308,500) |
| Proceeds from borrowings on revolving loan under credit facility | 1,024,500 | 632,875 |
| Repayments of long-term borrowings | — | (8,750) |
| Deferred financing costs | (406) | — |
| Payment of cash dividends | (145,016) | (142,644) |
| Repurchase of common stock | (363,829) | — |

| | | |
|---|---|---|
| Proceeds from sale of common stock | 13,520 | 14,035 |
| Tax payments related to shares withheld for vested restricted stock units | (11,124) | (10,306) |
| Capital lease payments | (334) | (298) |
| Excess tax benefit from share-based compensation | 407 | 982 |
| Net cash provided by financing activities | 327,718 | 177,394 |
| Effect of foreign exchange rate changes on cash and cash equivalents | — | (201) |
| Net (decrease) increase in cash and cash equivalents | (68,737) | 14,836 |
| Cash and cash equivalents at beginning of period | 607,815 | 466,603 |
| Cash and cash equivalents at end of period | $539,078 | $481,439 |

See accompanying notes to condensed consolidated financial statements

6

Table of Contents

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its majority-owned subsidiaries (the Company). The Company owned 100% of the outstanding stock in all of its subsidiaries as of September 30, 2015. All intercompany balances and transactions have been eliminated in consolidation.

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, 2015. The results of operations for the six months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016 or for any other period.

(2) Business Acquisitions
Acquisition of Micrel
On August 3, 2015, the Company acquired Micrel, Incorporated (Micrel), a publicly traded company based in San Jose, California. Micrel shareholders were able to elect to receive the $14.00 per share purchase price in either cash or shares of Microchip common stock. Based on the results of the shareholder elections, the Company paid an aggregate of approximately $430.0 million in cash and issued an aggregate of 8,626,795 shares of its common stock to Micrel shareholders. The total consideration transferred in the acquisition, including approximately $4.1 million of non cash consideration for the exchange of certain share-based payment awards of Micrel for stock awards of the Company, and approximately $13.1 million of cash consideration for the payout of vested employee stock awards, was approximately $816.2 million. The Company financed the cash portion of the purchase price using borrowings under its existing credit agreement. As a result of the acquisition, Micrel became a wholly owned subsidiary of the Company. Micrel's business is to design, develop, manufacture and market a range of high-performance analog, power and mixed-signal integrated circuits. Micrel's products address a wide range of end markets including industrial and automotive, wireline communications, enterprise and cloud infrastructure and mobility. Micrel also manufactures custom analog and mixed-signal circuits and provides wafer foundry services for customers which produce electronic systems utilizing semiconductor manufacturing processes as well as micro-electrical mechanical system technologies. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities in these areas by extending its served available market.
The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Micrel have been included in the Company's condensed consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Micrel's net tangible assets and intangible assets based on their estimated fair values as of August 3, 2015. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from

the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Micrel acquisition is deductible for tax purposes. The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

The table below represents the preliminary allocation of the purchase price to the net assets acquired based on their estimated fair values as of August 3, 2015, as well as the associated estimated useful lives of the acquired intangible assets at that date (amounts in thousands):

Table of Contents

| Assets acquired | August 3, 2015 | |
|---|---|---|
| Cash and cash equivalents | $99,196 | |
| Accounts receivable, net | 12,296 | |
| Inventories | 78,967 | |
| Prepaid expenses and other current assets | 10,548 | |
| Property, plant and equipment, net | 38,566 | |
| Goodwill | 437,060 | |
| Purchased intangible assets | 274,800 | |
| Other assets | 4,268 | |
| Total assets acquired | 955,701 | |
| | | |
| Liabilities assumed | | |
| Accounts payable | (11,068 | ) |
| Other current liabilities | (30,241 | ) |
| Deferred tax liabilities | (88,796 | ) |
| Long-term income tax payable | (9,239 | ) |
| Other long-term liabilities | (127 | ) |
| Total liabilities assumed | (139,471 | ) |
| Purchase price allocated | $816,230 | |

| Purchased Intangible Assets | Useful Life (in years) | August 3, 2015 (in thousands) |
|---|---|---|
| Core/developed technology | 10 | $176,800 |
| In-process technology | 10 | 22,100 |
| Customer-related | 5 | 70,400 |
| Backlog | 1 | 5,500 |
| | | $274,800 |

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles and acquisition-date backlog. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized commensurate with the expected cash flows used in the initial determination of fair value. In-process technology is capitalized until such time the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

Customer-related intangible assets consist of Micrel's contractual relationships and customer loyalty related to its distributor and end-customer relationships, and the fair values of the customer-related intangibles were determined based on Micrel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Micrel's historical customer information. Customer relationships are being amortized in a manner consistent with the estimated cash flows associated with the existing customers and anticipated retention rates.

Backlog relates to the value of orders not yet shipped by Micrel at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets are being recognized commensurate with recognition of the revenue for the orders on which the backlog intangible assets were determined.

Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $99.8 million was established as a net deferred tax liability for the future amortization of the intangible assets offset by $11.0 million of net deferred tax assets.

The amount of Micrel net sales and net loss included in the Company's condensed consolidated statements of income for the period August 3, 2015 to September 30, 2015 was $21.5 million and $28.5 million, respectively.

8

Table of Contents

The following unaudited pro-forma consolidated results of operations for the three and six months ended September 30, 2015 and 2014 assume the Micrel acquisition occurred as of April 1, 2014. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. The pro-forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2014 or of results that may occur in the future (amounts in thousands except per share data):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | $574,432 | $613,722 | $1,163,066 | $1,184,937 |
| Net income | 83,868 | 70,440 | 202,037 | 125,387 |
| Basic earnings per share | $0.41 | $0.35 | $0.99 | $0.63 |
| Diluted earnings per share | $0.39 | $0.31 | $0.93 | $0.56 |

Acquisition of ISSC

On July 17, 2014, the Company acquired an 83.5% interest in Taiwan based ISSC, a leading provider of low power Bluetooth and advanced wireless solutions for the Internet of Things (IoT) market. The Company acquired the 83.5% ownership interest through a tender offer process. Since the completion of the tender offer, the Company continued to acquire additional shares of ISSC, and as of June 30, 2015, the Company had completed the acquisition of 100% of the outstanding shares of ISSC.

The acquisition was accounted for under the acquisition method of accounting. The table below represents the allocation of the purchase price, including adjustments to the purchase price allocation from the previously reported figures at March 31, 2015, to the net assets acquired based on their estimated fair values as of July 17, 2014 as well as the associated estimated useful lives of the acquired intangible assets at that date. The purchase price allocation was finalized as of June 30, 2015 (amounts in thousands):

| Assets acquired | Previously Reported March 31, 2015 | Adjustments | June 30, 2015 |
|---|---|---|---|
| Cash and cash equivalents | $15,120 | $— | $15,120 |
| Short-term investments | 27,063 | — | 27,063 |
| Accounts receivable, net | 8,792 | — | 8,792 |
| Inventories | 16,542 | — | 16,542 |
| Prepaid expenses and other current assets | 2,501 | — | 2,501 |
| Property, plant and equipment, net | 2,637 | — | 2,637 |
| Goodwill | 154,399 | 389 | 154,788 |
| Purchased intangible assets | 147,800 | — | 147,800 |
| Other assets | 1,370 | — | 1,370 |
| Total assets acquired | 376,224 | 389 | 376,613 |
| | | | |
| Liabilities assumed | | | |
| Accounts payable | (9,860) | — | (9,860) |
| Other current liabilities | (16,535) | — | (16,535) |
| Long-term income tax payable | (4,402) | (389) | (4,791) |
| Deferred tax liability | (25,126) | — | (25,126) |
| Other long-term liabilities | (245) | — | (245) |
| Total liabilities assumed | (56,168) | (389) | (56,557) |
| Net assets acquired including noncontrolling interest | 320,056 | — | 320,056 |
| Less: noncontrolling interest | (52,467) | — | (52,467) |

| | | | |
|---|---|---|---|
| Net assets acquired | $267,589 | $— | $267,589 |

Table of Contents

| Purchased Intangible Assets | Useful Life (in years) | July 17, 2014 (in thousands) |
|---|---|---|
| Core/developed technology | 10 | $68,900 |
| In-process technology | 10 | 27,200 |
| Customer-related | 3 | 51,100 |
| Backlog | 1 | 600 |
| | | $147,800 |

Acquisition of Supertex

On April 1, 2014, the Company acquired Supertex Inc., a publicly traded company based in Sunnyvale, California. Supertex is a leader in high voltage analog and mixed signal technologies, with a strong position in the medical, lighting and industrial control markets.

The acquisition was accounted for under the acquisition method of accounting. The table below represents the allocation of the purchase price to the net assets acquired based on their estimated fair values as of April 1, 2014 as well as the associated estimated useful lives of the acquired intangible assets at that date. The purchase price allocation was finalized on March 31, 2015 (amounts in thousands):

| Assets acquired | March 31, 2015 |
|---|---|
| Cash and cash equivalents | $14,790 |
| Short-term investments | 140,984 |
| Accounts receivable, net | 7,047 |
| Inventories | 27,630 |
| Prepaid expenses | 1,493 |
| Deferred tax assets | 2,456 |
| Other current assets | 12,625 |
| Property, plant and equipment, net | 15,679 |
| Goodwill | 143,160 |
| Purchased intangible assets | 89,600 |
| Other assets | 325 |
| Total assets acquired | 455,789 |
| | |
| Liabilities assumed | |
| Accounts payable | (8,481) |
| Accrued liabilities | (19,224) |
| Long-term income tax payable | (3,796) |
| Deferred tax liability | (32,511) |
| Total liabilities assumed | (64,012) |
| Net assets acquired | $391,777 |

| Purchased Intangible Assets | Useful Life (in years) | April 1, 2014 (in thousands) |
|---|---|---|
| Core/developed technology | 10 | $68,900 |
| In-process technology | 10 | 1,900 |
| Customer-related | 2 | 17,700 |
| Backlog | 1 | 1,100 |
| | | $89,600 |

Table of Contents

(3) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09-Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is evaluating its existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be materially affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB delayed the effective date of the new standard by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. In accordance with the delay, the new standard will be effective for the Company beginning no later than April 1, 2018. Early adoption is permitted, but not before the original effective date of December 15, 2016. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the transition method that will be elected.

In April 2015, the FASB issued ASU 2015-03-Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015 and requires retrospective application. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05-Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This standard provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. This standard can be adopted either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11-Simplifying the Measurement of Inventory. This standard requires that entities measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for interim and annual reporting periods beginning after December 15, 2016 and is applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16-Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments. This standard amends existing guidance to require acquiring entities in a business combination to recognize measurement-period adjustments in the reporting period in which the adjustment amounts are determined. The standard also requires entities to present separately on the face of the income statement (or disclose in the notes to the financial statements) the amount of the adjustment reflected in the current period earnings, by line item, that would have been recognized in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption permitted. The standard is to be applied prospectively to measurement-period adjustments that occur after the effective date. The Company adopted this standard beginning in the second quarter of fiscal 2016 and the adoption of this standard did not have a material impact on its consolidated financial statements.

(4) Special Charges

The Company incurred special charges related to severance, office closing and other costs associated with its acquisition activity of $6.6 million and $8.2 million for the three and six months ended September 30, 2015, respectively, and $0.8 million and $1.1 million for the three and six months ended September 30, 2014, respectively.

Table of Contents

(5) Segment Information

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

The following table represents net sales and gross profit for each segment for the three and six months ended September 30, 2015 (amounts in thousands):

| | Three Months Ended September 30, 2015 | | Six Months Ended September 30, 2015 | |
|---|---|---|---|---|
| | Net Sales | Gross Profit | Net Sales | Gross Profit |
| Semiconductor products | $518,216 | $277,775 | $1,028,905 | $563,529 |
| Technology licensing | 23,175 | 23,175 | 46,438 | 46,438 |
| | $541,391 | $300,950 | $1,075,343 | $609,967 |

The following table represents net sales and gross profit for each segment for the three and six months ended September 30, 2014 (amounts in thousands):

| | Three Months Ended September 30, 2014 | | Six Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Net Sales | Gross Profit | Net Sales | Gross Profit |
| Semiconductor products | $523,659 | $284,870 | $1,032,098 | $570,952 |
| Technology licensing | 22,584 | 22,584 | 43,021 | 43,021 |
| | $546,243 | $307,454 | $1,075,119 | $613,973 |

(6) Investments

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale securities at September 30, 2015 (amounts in thousands):

| | Available-for-sale Securities | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Government agency bonds | $866,941 | $1,304 | $(51) | $868,194 |
| Municipal bonds | 42,579 | 11 | (516) | 42,074 |
| Auction rate securities | 9,825 | — | — | 9,825 |
| Corporate bonds and debt | 1,127,390 | 1,323 | (1,430) | 1,127,283 |
| | $2,046,735 | $2,638 | $(1,997) | $2,047,376 |

Table of Contents

The following is a summary of available-for-sale securities at March 31, 2015 (amounts in thousands):

| | Available-for-sale Securities | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Government agency bonds | $741,780 | $676 | $(200) | $742,256 |
| Municipal bonds | 41,552 | 155 | (9) | 41,698 |
| Auction rate securities | 9,825 | — | — | 9,825 |
| Time deposits [1] | 506 | — | — | 506 |
| Corporate bonds and debt | 924,818 | 2,376 | (265) | 926,929 |
| Marketable equity securities | 1,362 | 11,804 | — | 13,166 |
| | $1,719,843 | $15,011 | $(474) | $1,734,380 |

[1] Time deposits in various financial institutions with maturities greater than three months that will mature within one year.

At September 30, 2015, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $1,462.5 million and long-term investments of $584.9 million. At March 31, 2015, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $1,351.1 million and long-term investments of $383.3 million.

At March 31, 2015, the Company's marketable equity securities consisted of an investment in Hua Hong Semiconductor Limited (Hua Hong), which effected its initial public offering on the Hong Kong stock exchange on October 15, 2014. The Company sold all of its remaining shares of Hua Hong in the three months ended June 30, 2015.

The Company sold available-for-sale securities for proceeds of $46.7 million and $135.8 million during the three and six months ended September 30, 2015, respectively. The Company sold available-for-sale securities for proceeds of $26.7 million and $170.7 million during the three and six months ended September 30, 2014, respectively. The Company had no material realized gains from the sale of available-for-sale securities during the three months ended September 30, 2015. During the six months ended September 30, 2015, the Company had net realized gains of $14.0 million, from sales of available-for-sale marketable equity and debt securities. The Company had no material realized gains from the sale of available-for-sale securities during the three and six months ended September 30, 2014. The Company determines the cost of an investment sold on an average cost basis at the individual security level for sales from multiple lots. For all other sales, the Company uses an adjusted cost basis at the individual security level.

The following tables show all investments in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position (amounts in thousands):

| | September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Government agency bonds | $140,775 | $(51) | $10,000 | $— | $150,775 | $(51) |
| Municipal bonds | 34,222 | (516) | — | — | 34,222 | (516) |
| Corporate bonds and debt | 391,344 | (1,361) | 26,828 | (69) | 418,172 | (1,430) |
| | $566,341 | $(1,928) | $36,828 | $(69) | $603,169 | $(1,997) |

13

Table of Contents

| | March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Government agency bonds | $162,948 | $(142) | $29,942 | $(58) | $192,890 | $(200) |
| Municipal bonds | 13,318 | (9) | — | — | 13,318 | (9) |
| Corporate bonds and debt | 163,095 | (219) | 19,021 | (46) | 182,116 | (265) |
| | $339,361 | $(370) | $48,963 | $(104) | $388,324 | $(474) |

Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of September 30, 2015 and the Company's intent is to hold these investments until these assets are no longer impaired, except for certain auction rate securities (ARS). For those debt securities not scheduled to mature until after September 30, 2016, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments on the condensed consolidated balance sheet.

The amortized cost and estimated fair value of the available-for-sale securities at September 30, 2015, by contractual maturity, excluding corporate debt of $6.2 million, which has no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available-for-sale | | | | |
| Due in one year or less | $377,682 | $650 | $(42) | $378,290 |
| Due after one year and through five years | 1,520,303 | 1,942 | (1,954) | 1,520,291 |
| Due after five years and through ten years | 132,735 | 46 | (1) | 132,780 |
| Due after ten years | 9,825 | — | — | 9,825 |
| | $2,040,545 | $2,638 | $(1,997) | $2,041,186 |

(7) Fair Value Measurements

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

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

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

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

Marketable Debt Instruments

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

Table of Contents

that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

Derivatives

The Company's derivative assets include interest rate swaps that are classified as Level 2 as the Company uses inputs other than quoted prices that are observable for the assets. The Level 2 derivative assets are primarily valued using standard calculations and models that use readily observable market data as their basis.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at September 30, 2015 are as follows (amounts in thousands):

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents: | | | | |
| Money market mutual funds | $217,281 | $— | $— | $217,281 |
| Deposit accounts | — | 321,797 | — | 321,797 |
| Short-term investments: | | | | |
| Corporate bonds and debt | — | 737,194 | — | 737,194 |
| Government agency bonds | — | 717,419 | — | 717,419 |
| Municipal bonds | — | 7,853 | — | 7,853 |
| Long-term investments: | | | | |
| Corporate bonds and debt | — | 383,899 | 6,190 | 390,089 |
| Government agency bonds | — | 150,775 | — | 150,775 |
| Municipal bonds | — | 34,221 | — | 34,221 |
| Auction rate securities | — | — | 9,825 | 9,825 |
| Derivative assets | — | 10,963 | — | 10,963 |
| Total assets measured at fair value | $217,281 | $2,364,121 | $16,015 | $2,597,417 |

Table of Contents

Assets measured at fair value on a recurring basis at March 31, 2015 are as follows (amounts in thousands):

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents: | | | | |
| Money market mutual funds | $279,833 | $— | $— | $279,833 |
| Deposit accounts | — | 327,982 | — | 327,982 |
| Short-term investments: | | | | |
| Marketable equity securities | 13,166 | — | — | 13,166 |
| Corporate bonds and debt | — | 756,664 | — | 756,664 |
| Time deposits [1] | — | 506 | — | 506 |
| Government agency bonds | — | 549,737 | — | 549,737 |
| Municipal bonds | — | 30,981 | — | 30,981 |
| Long-term investments: | | | | |
| Corporate bonds and debt | — | 164,075 | 6,190 | 170,265 |
| Government agency bonds | — | 192,519 | — | 192,519 |
| Municipal bonds | — | 10,717 | — | 10,717 |
| Auction rate securities | — | — | 9,825 | 9,825 |
| Derivative assets | — | 8,928 | — | 8,928 |
| Total assets measured at fair value | $292,999 | $2,042,109 | $16,015 | $2,351,123 |

[1] Time deposits in various financial institutions with maturities greater than three months that will mature within one year.

There were no transfers between Level 1 and Level 2 during the three and six-month periods ended September 30, 2015 or the year ended March 31, 2015.

At September 30, 2015 and at March 31, 2015, the Company's ARS for which auctions have been unsuccessful are made up of securities related to the insurance industry valued at $9.8 million with a par value of $22.4 million. The Company estimated the fair value of its ARS, which are classified as Level 3 securities, based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The significant unobservable inputs used in the fair value measurement of the ARS as of September 30, 2015 were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2% to 2.5% adjusted for the liquidity risk premium which ranged from 9.1% to 29.5%. The anticipated liquidity horizon ranged from 7 to 10 years. A significant increase in the liquidity premium, discount rate or liquidity horizon, in isolation, would lead to a significantly lower fair value measurement. Each quarter, the Company investigates material changes in the fair value measurements of its ARS.

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

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

The Company's non-marketable and cost method investments are monitored on a quarterly basis for impairment charges.  The fair values of these investments have been determined as Level 3 fair value measurements because the valuations use unobservable inputs that require management's judgment due to the absence of quoted market prices. There were no impairment charges recognized on these investments during each of the three and six-month periods ended September 30, 2015 and September 30, 2014. These investments are included in other assets on the condensed consolidated balance sheet.

Table of Contents

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

(8) Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at September 30, 2015 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit borrowings at September 30, 2015 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 7. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

Fair Value of Subordinated Convertible Debentures

The Company measures the fair value of its senior and junior subordinated convertible debentures for disclosure purposes. These fair values are based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as a Level 2 fair value measurement, and exclude the impacts of derivative activity.

The carrying amounts and fair values of the Company’s senior and junior subordinated convertible debentures as of September 30, 2015 and March 31, 2015 are as follows (amounts in thousands):

| | September 30, 2015 | | March 31, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| 1.625% Senior Subordinated Convertible Debentures | $1,197,792 | $1,637,767 | $1,174,036 | $1,787,531 |
| 2.125% Junior Subordinated Convertible Debentures | $193,630 | $1,000,673 | $190,870 | $1,124,125 |

(9) Accounts Receivable

Accounts receivable consists of the following (amounts in thousands):

| | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Trade accounts receivable | $280,257 | $269,844 |
| Other | 3,481 | 6,714 |
| | 283,738 | 276,558 |
| Less allowance for doubtful accounts | 2,675 | 2,621 |
| | $281,063 | $273,937 |

(10) Inventories

The components of inventories consist of the following (amounts in thousands):

| | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Raw materials | $15,135 | $13,263 |
| Work in process | 248,277 | 197,565 |
| Finished goods | 100,348 | 68,628 |
| | $363,760 | $279,456 |

17

Table of Contents

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. The inventory balance at September 30, 2015 includes a $37.2 million acquired inventory fair value adjustment resulting from the acquisition of Micrel.

(11) Assets Held for Sale

During the year ended March 31, 2015, the Company began to actively market property it acquired as part of the Supertex acquisition. The Company sold the property on July 22, 2015 for $14.3 million. As of March 31, 2015, the Company had classified the assets as held for sale on its condensed consolidated balance sheet at its estimated fair value of approximately $14.0 million.

(12) Property, Plant and Equipment

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

| | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Land | $63,934 | $55,624 |
| Building and building improvements | 451,594 | 434,403 |
| Machinery and equipment | 1,632,407 | 1,576,074 |
| Projects in process | 92,091 | 76,315 |
| | 2,240,026 | 2,142,416 |
| Less accumulated depreciation and amortization | 1,608,426 | 1,560,844 |
| | $631,600 | $581,572 |

Depreciation expense attributed to property, plant and equipment was $26.2 million and $50.9 million for the three and six months ended September 30, 2015, respectively, and $24.3 million and $47.6 million for the three and six months ended September 30, 2014, respectively.

(13) Noncontrolling Interests

The following table presents the changes in the components of noncontrolling interests for the six months ended September 30, 2015 (amounts in thousands):

| | Noncontrolling Interests |
|---|---|
| Balance at March 31, 2015 | $16,372 |
| Net loss attributable to noncontrolling interests | (207) |
| Purchase of additional interests | (16,165) |
| Balance at September 30, 2015 | $— |

The following table presents the effect of changes in the Company's ownership interest in ISSC on the Company's stockholders' equity for the six months ended September 30, 2015 (amounts in thousands):

| | Six Months Ended September 30, 2015 |
|---|---|
| Net income attributable to Microchip Technology stockholders | $195,566 |
| Decrease in paid-in capital for purchase of additional interests | (1,610) |
| Transfers from noncontrolling interest | (1,610) |
| Change from net income attributable to Microchip Technology stockholders and transfers from noncontrolling interest | $193,956 |

18

Table of Contents

## (14) Intangible Assets and Goodwill

Intangible assets consist of the following (amounts in thousands):

| | September 30, 2015 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount |
| Core and developed technology | $778,835 | $(258,503) | $520,332 |
| Customer-related | 334,369 | (222,817) | 111,552 |
| Trademarks and trade names | 15,730 | (10,569) | 5,161 |
| Backlog | 31,804 | (27,679) | 4,125 |
| In-process technology | 60,914 | — | 60,914 |
| Distribution rights | 5,579 | (5,280) | 299 |
| Covenants not to compete | 400 | (400) | — |
| | $1,227,631 | $(525,248) | $702,383 |

| | March 31, 2015 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount |
| Core and developed technology | $569,942 | $(209,676) | $360,266 |
| Customer-related | 263,969 | (193,483) | 70,486 |
| Trademarks and trade names | 15,730 | (9,529) | 6,201 |
| Backlog | 26,304 | (26,304) | — |
| In-process technology | 67,142 | — | 67,142 |
| Distribution rights | 5,580 | (5,258) | 322 |
| Covenants not to compete | 400 | (400) | — |
| | $949,067 | $(444,650) | $504,417 |

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the three months ended September 30, 2015, as a result of the Micrel transaction, the Company acquired $176.8 million of core and developed technology which has a weighted average amortization period of 10 years, $70.4 million of customer-related intangible assets which has a weighted average amortization period of 5 years, $5.5 million of intangible assets related to backlog with an amortization period of 1 year and $22.1 million of in-process technology which will begin amortization once the technology reaches technological feasibility. During the six months ended September 30, 2015, $28.3 million of in-process technology reached technological feasibility and was reclassified as core and developed technology and began being amortized over its estimated useful life. The following is an expected amortization schedule for the intangible assets for the remainder of fiscal 2016 through fiscal 2020, absent any future acquisitions or impairment charges (amounts in thousands):

| Year ending March 31, | Projected Amortization Expense |
|---|---|
| 2016 | $98,775 |
| 2017 | 137,051 |
| 2018 | 110,462 |
| 2019 | 93,561 |
| 2020 | 75,320 |

Amortization expense attributed to intangible assets was $44.9 million and $80.6 million for the three and six months ended September 30, 2015, respectively. Amortization expense attributed to intangible assets was $46.5 million and

$84.2 million for the three and six months ended September 30, 2014, respectively. In the three and six months ended September 30, 2015, approximately $0.9 million and $1.7 million was charged to cost of sales, respectively, and approximately $44.0 million and $78.9 million was charged to operating expenses, respectively. In the three and six months ended September 30, 2014, approximately $1.0 million and $2.0 million was charged to cost of sales, respectively, and approximately $45.5 million and $82.2 million was charged to operating expenses, respectively. The Company recognized impairment charges of $0.5 million in each of the three and six months ended September 30, 2015. The Company recognized impairment charges of $0.2 million and $0.6 million the three and six months ended September 30, 2014, respectively.

Goodwill activity for the six months ended September 30, 2015 was as follows (amounts in thousands):

| | Semiconductor Products Reporting Unit | Technology Licensing Reporting Unit |
|---|---|---|
| Balance at March 31, 2015 | $552,071 | $19,200 |
| Additions due to the acquisition of Micrel | 437,060 | — |
| Adjustments due to acquisition of ISSC | 389 | — |
| Balance at September 30, 2015 | $989,520 | $19,200 |

At March 31, 2015, the Company applied a qualitative goodwill impairment screen to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through September 30, 2015, the Company has never recorded an impairment charge against its goodwill balance.

(15) Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. The Company had an effective tax rate benefit of 12.6% for the six-month period ended September 30, 2015 and an effective tax rate of 8.0% for the six-month period ended September 30, 2014. The Company's effective tax rate for the six-month period ended September 30, 2015 is lower compared to the prior year primarily due to favorable tax impacts from the Micrel purchase accounting adjustments. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates.

At September 30, 2015, the Company had $225.1 million of unrecognized tax benefits. Unrecognized tax benefits increased by $26.2 million compared to March 31, 2015 primarily as a result of the acquisition of Micrel, the ongoing accrual for uncertain tax positions and the accrual of deficiency interest on these positions.

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 2011 and later tax years remain open for examination by tax authorities. The U.S. Internal Revenue Service (IRS) is currently auditing Microchip's 2011 and 2012 tax years. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2007.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other domestic and international tax jurisdictions based on its estimate of whether, and the extent to which, additional tax payments are more likely than not. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax laws applied to the facts of each matter.

The Company believes it maintains appropriate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined. Although the timing of the resolution and/or closure of audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

(16) 1.625% Senior Subordinated Convertible Debentures

In February 2015, the Company issued $1,725.0 million principal amount of 1.625% senior subordinated convertible debentures due February 15, 2025. The debentures are subordinated to the Company's senior debt, including amounts borrowed under its amended credit facility, but are senior to the Company's outstanding 2.125% junior subordinated convertible debentures. The debentures are convertible, subject to certain conditions, into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at an initial base conversion rate of 14.5654 shares of common stock per

Table of Contents

$1,000 principal amount of debentures, representing an initial base conversion price of approximately $68.66 per share of common stock. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 14.8954 shares of common stock per $1,000 of principal amount of debentures, representing a base conversion price of approximately $67.13 per share of common stock. In addition, if at the time of conversion the applicable price of the Company's common stock exceeds the base conversion price, the conversion rate will be increased by up to an additional 7.2827 shares of common stock per $1,000 principal amount of debentures, as determined pursuant to a specified formula. As a result of cash dividends paid since the issuance of the debentures, the maximum number of additional shares that may be issued if the stock price of the Company's common stock exceeds the base conversion price has been adjusted to 7.4477 shares of common stock per $1,000 principal amount of debentures. However, in no event will the conversion rate exceed 20.3915 (adjusted to 20.8535 as a result of cash dividends paid since the issuance of the debentures) shares of common stock per $1,000 principal amount of debentures. The Company received net proceeds of approximately $1,694.7 million after deduction of issuance costs of approximately $30.3 million. The $30.3 million in issuance costs was split between a debt component of $20.4 million and an equity component of $9.9 million. The $20.4 million in debt issuance costs is recorded in other assets and is being amortized using the effective interest method over the term of the debentures.

Prior to the close of business on the business day immediately preceding November 15, 2024, the debentures will be convertible at the option of the debenture holders only upon the satisfaction of specified conditions and during certain periods. Thereafter until close of business on the second scheduled trading day immediately preceding February 15, 2025, the debentures will be convertible at the option of the debenture holders at any time regardless of these conditions. Accrued and unpaid interest will be considered fully paid upon settlement of shares.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are both initially recorded at fair value. The carrying value of the equity component at September 30, 2015 and March 31, 2015 was $564.9 million. The estimated fair value of the liability component of the debentures at the issuance date was $1,160.1 million resulting in a debt discount of $564.9 million. The unamortized debt discount was $538.2 million at September 30, 2015 and $559.3 million at March 31, 2015. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 9.37 years. In the three and six months ended September 30, 2015, the Company recognized $10.6 million and $21.1 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized $7.0 million and $14.0 million of interest expense related to the 1.625% coupon on the debentures in the three and six months ended September 30, 2015, respectively. The effective interest rate of the debentures is 6.1%.

(17) 2.125% Junior Subordinated Convertible Debentures

The Company's $575.0 million principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company's subsidiaries. The debentures are convertible, subject to certain conditions, into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at an initial conversion rate of 29.2783 shares of common stock per $1,000 principal amount of debentures, representing an initial conversion price of approximately $34.16 per share of common stock. As of September 30, 2015, the holders of the debentures had the right to convert their debentures between October 1, 2015 and December 31, 2015 because for at least 20 trading days during the 30 consecutive trading day period ending on September 30, 2015, the Company's common stock had a last reported sale price greater than 130% of the conversion price. As of September 30, 2015, a holder could realize more economic value by selling its debentures in the over the counter market than from converting its debentures. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 40.4715 shares of common stock per $1,000 of principal amount of debentures, representing a conversion price of approximately $24.71 per share of common stock. The if-converted value of the debentures exceed the principal amount by $427.8 million at September 30, 2015. The debentures include a contingent interest mechanism that begins in December 2017. The terms of the contingent interest include a 0.25% interest rate if the debentures are trading at less than $400 and 0.5% if the debentures are trading at greater than $1,500. Based on the current trading price of the debentures, the contingent interest rate in calendar year 2017 would be 0.5%.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are both initially recorded at fair value. The carrying value of the equity component at September 30, 2015 and at March 31, 2015 was $411.2 million. The estimated fair value of the liability component of the debentures at the issuance date was $163.8 million, resulting in a debt discount of $411.2 million. The unamortized debt discount was $381.1 million at September 30, 2015 and $383.7 million at March 31, 2015. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 22.25 years. In the three and six months ended September 30, 2015, the Company recognized $1.3 million and $2.6 million, respectively, in non-cash interest expense related to the amortization of the debt discount. In the three and six months ended September 30, 2014, the

Company recognized $2.4 million and $4.8 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized $3.1 million and $6.1 million of interest expense related to the 2.125% coupon on the debentures in the three and six months ended September 30, 2015, respectively, compared to $6.1 million and $12.2 million in the three and six months ended September 30, 2014, respectively. The Company acquired $575.0 million in aggregate principal amount of its 2.125% junior subordinated convertible debentures in the March 2015 quarter which is the primary reason for the reductions of interest expense in the three and six months ended September 30, 2015 compared to the prior year periods. The effective interest rate of the debentures is 9.1%.

(18) Credit Facility

In February 2015, the Company amended its existing $2.0 billion credit agreement by increasing the revolving credit facility to $2.555 billion and removing the term loan portion of the agreement. The new credit agreement includes two tranches. One tranche consists of bank commitments through February 2020 and another tranche consists of bank commitments through June 2018, the maturity date of the original credit agreement. The Company's increase option was also adjusted to $300 million. The credit agreement provides for a $125 million foreign currency sublimit, a $25 million letter of credit sublimit and a $25 million swingline loan sublimit. The amended credit agreement was accounted for as a modification and as such any remaining unamortized deferred costs associated with the prior credit agreement was associated with the new credit agreement since the borrowing capacity was increased. At September 30, 2015, $1,296.5 million of revolving credit facility borrowings were outstanding under the credit agreement compared to $462.0 million at March 31, 2015.

The loans under the credit agreement bear interest, at the Company's option, at the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate (based on one, two, three, or six-month interest periods) plus a spread of 1.25% to 2.25%, in each case with such spread being determined based on the consolidated leverage ratio for the preceding four fiscal quarters (in the case of the 2018 tranche revolving loans) or the consolidated senior leverage ratio (in the case of the 2020 tranche revolving loans). The base rate means the highest of JPMorgan Chase Bank, N.A.'s prime rate, the federal funds rate plus a margin equal to 0.50% and the adjusted LIBOR rate for a 1-month interest period plus a margin equal to 1.00%. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. Base rate loans may only be made in U.S. dollars. The Company is also obligated to pay other customary administration fees and letter of credit fees for a credit facility of this size and type.

Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three-month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Interest expense related to the credit agreement was approximately $4.9 million and $8.5 million in the three and six months ended September 30, 2015, respectively, and approximately $5.1 million and $10.1 million in the three and six months ended September 30, 2014, respectively. Principal, together with all accrued and unpaid interest, is due and payable on the respective tranche maturity date, which is June 27, 2018 and February 4, 2020. The weighted average interest rate on short-term borrowings outstanding at September 30, 2015 related to the credit agreement was 1.44%. The Company also pays a quarterly commitment fee on the available but unused portion of its line of credit which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Company's obligations under the credit agreement are guaranteed by certain of its subsidiaries meeting materiality thresholds set forth in the credit agreement. To secure the Company's obligations under the credit agreement, the Company and its domestic subsidiaries will be required to pledge the equity securities of certain of their respective material subsidiaries, subject to certain exceptions and limitations.

The credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with consolidated senior and total leverage ratios and a consolidated interest coverage ratio. At September 30, 2015, the Company was in compliance with these covenants.

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

(19) Contingencies

In the ordinary course of the Company's business, it is involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. The Company also periodically receives notifications from various third parties alleging infringement of patents, intellectual property rights or other matters. With respect to pending legal actions to which the Company is a party, although the outcomes of these actions are not generally 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 relating to the semiconductor industry is not uncommon, and the Company is, and from time to time has been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

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 $139 million. There are some licensing agreements in place that do not specify indemnification limits. The Company had not recorded any liabilities related to these indemnification obligations as of September 30, 2015.

(20) Derivative Instruments

Freestanding Derivative Forward Contracts

Foreign Currency Exchange Rate Risk

The Company has international operations and is thus subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Approximately 99% of the Company's sales are U.S. dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company's operating results. As of September 30, 2015 and March 31, 2015, the Company had no foreign currency forward contracts outstanding. The Company recognized an immaterial amount of net realized gains and losses on foreign currency forward contracts in each of the three and six months ended September 30, 2015 and 2014. Gains and losses from changes in the fair value of these foreign currency forward contracts and foreign currency exchange rate fluctuations are credited or charged to Other Income (Expense) on the condensed consolidated statements of income. The Company does not apply hedge accounting to its foreign currency derivative instruments.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between the fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

Table of Contents

In March 2015, the Company entered into ten-year fixed-to-floating interest rate swap agreements designated as fair value hedges of the changes in fair value of a portion of the Company's fixed-rate 1.625% senior subordinated convertible debentures due to changes in the LIBOR swap rate, the designated benchmark interest rate. The Company pays variable interest equal to the three-month LIBOR minus 53.6 basis points, and it receives a fixed interest rate of 1.625%. The notional amount of these contracts outstanding at September 30, 2015 and at March 31, 2015 was $431.3 million, representing 25% of the principal amount of the senior subordinated convertible debentures.

The following table summarizes the fair value amounts of derivative instruments reported on the condensed consolidated balance sheets in other assets (amounts in thousands):

| Derivatives designated as hedging instruments | September 30, 2015 | March 31, 2015 |
|---|---|---|
| Interest rate contracts | $10,963 | $8,928 |

The following table summarizes the location and amount of the gain or loss on the hedged item attributable to the changes in the LIBOR swap rate and the offsetting gain or loss on the related interest rate swap agreements for the three and six months ended September 30, 2015. The difference represents hedge ineffectiveness (amounts in thousands):

| | Three Months Ended September 30, 2015 | | Six Months Ended September 30, 2015 | |
|---|---|---|---|---|
| Income Statement Classification | Gain (Loss) on Senior Subordinated Convertible Debentures | Gain (Loss) on Interest Rate Swap | Gain (Loss) on Senior Subordinated Convertible Debentures | Gain (Loss) on Interest Rate Swap |
| Other Income (Expense) | $(17,573) | $17,005 | $(2,642) | $2,034 |

(21) Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (AOCI) for the six months ended September 30, 2015 (amounts in thousands):

| | Unrealized holding gains (losses) available-for-sale securities | Minimum pension liability | Foreign Currency | Total |
|---|---|---|---|---|
| Accumulated other comprehensive income (loss) at March 31, 2015 | $14,537 | $13 | $(3,474) | $11,076 |
| Other comprehensive income before reclassifications | 70 | — | — | 70 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (13,965) | — | — | (13,965) |
| Net other comprehensive loss | (13,895) | — | — | (13,895) |
| Purchase of shares from noncontrolling interest | — | — | (276) | (276) |
| Accumulated other comprehensive income (loss) at September 30, 2015 | $642 | $13 | $(3,750) | $(3,095) |

Table of Contents

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | | |
|---|---|---|---|---|---|
| Description of AOCI Component | 2015 | 2014 | 2015 | 2014 | Related Statement of Income Line |
| Unrealized gains on available-for-sale securities | $6 | $62 | $13,965 | $96 | Other income |
| Taxes | — | — | — | (12) | Provision for income taxes |
| Reclassification of realized transactions, net of taxes | $6 | $62 | $13,965 | $84 | Net income |

(22) Share-Based Compensation

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of sales | $2,398 (1) | $2,640 (1) | $4,055 (1) | $4,695 (1) |
| Research and development | 8,670 | 7,261 | 15,768 | 13,570 |
| Selling, general and administrative | 11,958 | 5,372 | 17,315 | 10,329 |
| Pre-tax effect of share-based compensation | 23,026 | 15,273 | 37,138 | 28,594 |
| Income tax benefit | 8,574 | 1,833 | 12,106 | 3,253 |
| Net income effect of share-based compensation | $14,452 | $13,440 | $25,032 | $25,341 |

(1) During the three and six months ended September 30, 2015, $1.8 million and $3.6 million, respectively, of share-based compensation expense was capitalized to inventory and $2.4 million and $4.1 million, respectively, of previously capitalized share-based compensation expense in inventory was sold. During the three and six months ended September 30, 2014, $1.6 million and $3.3 million, respectively, of share-based compensation expense was capitalized to inventory and $2.6 million and $4.7 million, respectively, of previously capitalized share-based compensation expense in inventory was sold.

(23) Net Income Per Common Share Attributable to Microchip Technology Stockholders

The following table sets forth the computation of basic and diluted net income per common share attributable to Microchip Technology stockholders (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income attributable to Microchip Technology | $64,899 | $93,641 | $195,566 | $183,550 |
| Weighted average common shares outstanding | 204,275 | 200,629 | 203,254 | 200,408 |
| Dilutive effect of stock options and RSUs | 3,065 | 3,767 | 3,228 | 3,780 |
| Dilutive effect of 2037 junior subordinated convertible debentures | 9,759 | 20,888 | 10,451 | 20,718 |
| Weighted average common and potential common shares outstanding | 217,099 | 225,284 | 216,933 | 224,906 |
| | $0.32 | $0.47 | $0.96 | $0.92 |

| | | | | |
|---|---|---|---|---|
| Basic net income per common share attributable to Microchip Technology stockholders | | | | |
| Diluted net income per common share attributable to Microchip Technology stockholders | $0.30 | $0.42 | $0.90 | $0.82 |

25

Table of Contents

The Company computed basic earnings per common share attributable to its stockholders using net income available to common stockholders and the weighted average number of common shares outstanding during the period. The Company computed diluted earnings per common share attributable to its stockholders using net income available to stockholders and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period.

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options and the assumed vesting of outstanding RSUs.

Diluted net income per common share attributable to stockholders for the three and six months ended September 30, 2015 includes 9,759,393 shares and 10,451,083 shares, respectively, issuable upon the exchange of the Company's 2.125% junior subordinated convertible debentures due December 15, 2037 (see Note 17). Diluted net income per common share attributable to stockholders for the three and six months ended September 30, 2014 includes 20,887,608 shares and 20,717,720 shares, respectively, issuable upon the exchange of the Company's 2.125% junior subordinated convertible debentures due December 15, 2037. The debentures have no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for the three and six-month periods ended September 30, 2015 was $24.87 and $24.94, respectively. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for the three and six-month periods ended September 30, 2014 was $25.58 and $25.67, respectively

There were no shares issuable upon the exchange of the Company's 1.625% senior subordinated convertible debentures due February 15, 2025 (see Note 16). The debentures have no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price