

MICROCHIP TECHNOLOGY INC  
Form 10-K  
May 18, 2018

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

FORM 10-K  
(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
<sup>x</sup> For the fiscal year ended March 31, 2018

OR  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
<sup>o</sup> 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  
(Address of Principal Executive Offices, Including Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, \$0.001 Par Value Per Share NASDAQ® Global Market

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

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

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

Indicate by 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 such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates as of September 30, 2017 based upon the closing price of the common stock as reported by the NASDAQ Global Market on such date was approximately \$20,543,563,116.

Number of shares of Common Stock, \$0.001 par value, outstanding as of May 9, 2018: 235,036,703 shares

Documents Incorporated by Reference

Document	Part of Form
Proxy Statement for the 2018 Annual Meeting of Stockholders	10-K III

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

FORM 10-K

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PART I

This Form 10-K contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy and future financial performance and those statements identified under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Note Regarding Forward-looking Statements." Our actual results could differ materially from the results described in these forward-looking statements as a result of certain factors including those set forth under "Item 1A – Risk Factors," beginning below at page 13, and elsewhere in this Form 10-K. Although we believe that the matters reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. In this Form 10-K, "we," "us," "our," and "Microchip" each refers to Microchip Technology Incorporated and its subsidiaries.

Item 1. BUSINESS

We develop, manufacture and sell specialized semiconductor products used by our customers for a wide variety of embedded control applications. Our product portfolio comprises general purpose and specialized 8-bit, 16-bit, and 32-bit microcontrollers, 32-bit microprocessors, a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, radio frequency (RF), timing, 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 and serial Static Random Access Memory (SRAM). We also license Flash-IP solutions that are incorporated in a broad range of products. Our synergistic product portfolio targets thousands of applications worldwide and a growing demand for high-performance designs in the automotive, communications, computing, consumer and industrial control markets. Our quality systems are ISO/TS16949 (2009 version) certified.

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

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

- our annual report on Form 10-K
- our quarterly reports on Form 10-Q
- our current reports on Form 8-K
- our proxy statement
- any amendments to the above-listed reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934

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

Recent Developments

On March 1, 2018, we entered into a definitive agreement (the "Merger Agreement") to acquire Microsemi Corporation ("Microsemi") for \$68.78 per share in cash. The acquisition price represents a total equity value of approximately \$8.35 billion, and a total enterprise value of about \$10.15 billion, after accounting for Microsemi's cash and investments, net of debt, on its balance sheet at December 31, 2017. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets.

Microsemi is headquartered in Aliso Viejo, California, and has approximately 4,800 employees globally. Refer to Note 23 to our consolidated financial statements for additional details.

The Board of Directors of each of Microchip and Microsemi have unanimously approved the Merger and the Merger Agreement. The transaction is subject to customary closing conditions including regulatory approvals and approval by Microsemi stockholders. There is no financing condition to the closing of the Merger. Assuming the timely receipt of the aforementioned regulatory approvals and the satisfaction of the other closing conditions, we anticipate that the merger will be completed in late May/early June 2018.

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We estimate that the total amount of funds necessary to complete the Merger and the other transactions contemplated by the Merger Agreement will be approximately \$10.15 billion, which will be funded through a combination of:

- the incurrence of loans under a new term loan facility or other debt financing;
- revolving loans under Microchip's amended and restated credit agreement; and
- Microchip's and Microsemi's cash and cash equivalents on hand at closing.

On March 1, 2018, in connection with our execution of the Merger Agreement, we entered into a Commitment Letter with JPMorgan Chase Bank, N.A. ("JPMorgan"), pursuant to which JPMorgan committed to provide to Microchip, among other things, (1) a senior secured term loan facility in an aggregate principal amount of up to \$5.0 billion and (2) a 364-day secured bridge facility in an aggregate principal amount of up to \$625.0 million, in each case, subject to the execution of definitive documentation and customary closing conditions. JPMorgan's commitments in respect of the Term Loan Facility will be reduced in the event Microchip's raises certain other debt or equity financing.

The Merger Agreement contains customary representations, warranties and covenants of Microchip, Microsemi, and Merger Sub, including among others, (i) covenants by Microsemi concerning the conduct of its business in the ordinary course consistent with past practice during the interim period between the execution of the Merger Agreement and the consummation of the Merger, (ii) a covenant by Microsemi that, subject to certain exceptions, the Board of Directors of Microsemi will recommend to its stockholders adoption of the Merger Agreement, and (iii) a covenant that Microsemi will not solicit, initiate or knowingly encourage, facilitate or induce the making, submission or announcement of an Acquisition Proposal (as defined in the Merger Agreement) or the making of any inquiry, offer or proposal that would reasonably be expected to lead to an Acquisition Proposal. The Merger Agreement contains certain termination rights for both Microchip and Microsemi and further provides that upon termination of the Merger Agreement under specified circumstances (including termination by Microsemi to accept a superior proposal), Microsemi may be required to pay Microchip a termination fee of \$290 million. The Merger Agreement also contains a provision requiring Microsemi to reimburse Microchip for up to \$35 million of its expenses incurred in connection with the Merger if the approval of the Merger by the holders of a majority of the outstanding shares of Microsemi Common Stock is not obtained at a meeting called for that purpose.

## Industry Background

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

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

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

- automotive comfort, safety, information and entertainment applications

- remote control devices
- handheld tools
- large and small home appliances
- portable computers and accessories
- robotics
- energy monitoring
- thermostats
- motor controls
- security systems
- smoke and carbon monoxide detectors
- consumer electronics
- power supplies

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- applications needing touch buttons, touch screens and graphical user interfaces
- medical instruments

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

The increasing demand for embedded control has made the market for microcontrollers a significant segment of the semiconductor market at \$18.0 billion in calendar year 2017. Microcontrollers are primarily available in 8-bit through 32-bit architectures. 8-bit microcontrollers remain very cost-effective for a wide range of high-volume embedded control applications and, as a result, continue to represent a significant portion of the overall microcontroller market. 16-bit and 32-bit microcontrollers provide higher performance and functionality, and are generally found in more complex embedded control applications. The analog and mixed-signal segment of the semiconductor market is very large at over \$50 billion in calendar year 2017, and this market is fragmented into a large number of sub segments.

### Our Products

Our strategic focus is on embedded control solutions, including:

- general purpose and specialized microcontrollers and 32-bit microprocessors
- development tools and related software
- analog, interface, mixed signal, timing and security products
- wired and wireless connectivity products
- memory products
- technology licensing

We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, wide voltage range operation, mixed signal integration, and ease of development, thus enabling timely and cost-effective integration of our solutions by our customers in their end products.

### Microcontrollers

We offer a broad family of proprietary general purpose microcontroller products marketed under multiple brand names. We believe that our microcontroller product families provide leading function and performance characteristics in the worldwide microcontroller market. We have shipped over 22 billion microcontrollers to customers worldwide since 1990. We also offer specialized microcontrollers for automotive networking, computing, lighting, power supplies, motor control, human machine interface, security, wired connectivity and wireless connectivity. With almost 3,000 microcontrollers in our product portfolio, we target the 8-bit, 16-bit, and 32-bit microcontroller and 32-bit embedded microprocessor markets.

We have used our manufacturing experience and design and process technology to bring additional enhancements and manufacturing efficiencies to the development and production of our microcontroller products. Our extensive experience base has enabled us to develop microcontrollers with rich analog and digital peripherals, that have a small footprint, extreme low power consumption and are re-programmable, enabling us to be a leader in microcontroller

product offerings.

#### Development Tools

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

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

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Many independent companies also develop and market application development tools that support our microcontroller product architectures. Currently, there are more than 250 third-party tool suppliers worldwide whose products support our microcontroller architectures.

We believe that familiarity with and adoption of development tools from Microchip as well as third-party development tool partners by an increasing number of product designers will be an important factor in the future selection of our embedded control products. These development tools allow design engineers to develop thousands of application-specific products from our standard microcontrollers. To date, we have shipped approximately 2.4 million development tools.

### Analog, Interface, Mixed Signal and Timing Products

Our analog, interface, mixed signal and timing products consist of several families with over 3,800 power management, linear, mixed-signal, high voltage, thermal management, radio frequency (RF), drivers, safety, security, timing, USB, ethernet, wireless and other interface products.

We market and sell our analog, interface, mixed signal and timing products into our microcontroller customer base, to customers who use microcontrollers from other suppliers and to customers who use other products that may not fit our traditional microcontroller and memory products customer base.

### Memory Products

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

### Technology Licensing

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

### Multi-Market and Other

Our multi-market and other business offers manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, complex programmable logic devices, and products for aerospace applications.

### Manufacturing

Our manufacturing operations include wafer fabrication, wafer probe, assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control, resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and our assembly and test operations, and by employing statistical techniques (statistical process control, designed experiments and wafer level monitoring), we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our

design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and assembly and testing profit margin. We do outsource a significant portion of our manufacturing requirements to third parties and the amount of our outsourced manufacturing has increased in recent years due to our acquisitions of companies that outsource all or substantial portions of their manufacturing.

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Our manufacturing facilities are located in:

- Tempe, Arizona (Fab 2)
- Gresham, Oregon (Fab 4)
- Colorado Springs, Colorado (Fab 5)
- Chandler, Arizona (wafer probe)
- Bangkok, Thailand (wafer probe, assembly and test)
- Calamba, Philippines (wafer probe and test)

### Wafer Fabrication

Fab 2 currently produces 8-inch wafers and supports various manufacturing process technologies, but predominantly utilizes our 0.5 microns to 1.0 microns processes. During fiscal 2018, we increased Fab 2's capacity to support more advanced technologies by making process improvements, upgrading existing equipment, and adding equipment.

Fab 4 currently produces 8-inch wafers using predominantly 0.13 microns to 0.5 microns manufacturing processes. During fiscal 2018, we increased Fab 4's capacity to support more advanced technologies by making process improvements, upgrading existing equipment, and adding equipment. A significant amount of additional clean room capacity in Fab 4 can be brought on line in the future to support incremental wafer fabrication capacity needs.

Fab 5 is a 6-inch wafer fabrication facility that currently utilizes processes from 0.25 microns to 1.0 microns. During fiscal 2018, we made use of the existing capacity of Fab 5 to significantly increase wafer starts to support demand.

We believe the combined capacity of Fab 2, Fab 4, and Fab 5 will provide sufficient capacity to allow us to respond to increases in future demand over the next several years with modest incremental capital expenditures.

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

We augment our internal manufacturing capabilities by outsourcing a portion of our wafer production requirements to third-party wafer foundries. As a result of our acquisitions in recent years, we have become more reliant on outside wafer foundries for our wafer fabrication requirements. In fiscal 2018, approximately 42% of our sales came from products that were produced at outside wafer foundries.

### Wafer Probe, Assembly and Test

We perform wafer probe, product assembly and testing at our facilities located near Bangkok, Thailand, and we perform wafer probe and testing at our facility in Calamba, Philippines. We also perform a limited amount of wafer probe and testing at our Chandler, Arizona facility and our Colorado Springs, Colorado facility. During fiscal 2018, we increased our Thailand and Philippines facilities' capacity to support more technologies by making process improvements, upgrading existing equipment, and adding equipment. During fiscal 2018, approximately 42% of our assembly requirements were being performed in our Thailand facilities and approximately 64% of our test requirements were performed in our Thailand and Philippines facilities. We use third-party assembly and test contractors in several Asian countries for the balance of our assembly and test requirements. Over time, we intend to migrate a portion of the outsourced assembly and test activities to our Thailand and Philippines facilities.

### General Matters Impacting Our Manufacturing Operations

Due to the high fixed costs inherent in semiconductor manufacturing, consistently high manufacturing yields have significant positive effects on our gross profit and overall operating results. Our continuous focus on manufacturing productivity has allowed us to maintain excellent manufacturing yields at our facilities. Our manufacturing yields are primarily driven by a comprehensive implementation of statistical process control, extensive employee training and effective use of our manufacturing facilities and equipment. Maintenance of manufacturing productivity and yields are important factors in the achievement of our operating results. The manufacture of integrated circuits, particularly non-volatile, erasable complementary metal-oxide semiconductor (CMOS) memory and logic devices, such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used and the performance of our manufacturing personnel and equipment. As is typical in the

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semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at or above approximately the current levels.

Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. In order to respond to such requirements, we have historically maintained a significant work-in-process and finished goods inventory.

The following table summarizes our long-lived assets (consisting of property, plant and equipment) by geography at the end of fiscal 2018, fiscal 2017 and fiscal 2016 (in millions).

	March 31,		
	2018	2017	2016
United States	\$393.3	\$388.5	\$373.9
Thailand	215.5	178.0	182.8
Various other countries	159.1	116.8	52.7
Total long-lived assets	\$767.9	\$683.3	\$609.4

We have many suppliers of raw materials and subcontractors which provide our various materials and service needs. We generally seek to have multiple sources of supply for our raw materials and services, but, in some cases, we may rely on a single or limited number of suppliers. In such event, we have plans to reduce the exposure that would result from a disruption in supply.

#### Research and Development (R&D)

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 R&D activities focus on the development of general purpose and specialized microcontrollers, 32-bit microprocessors, wired and wireless connectivity products, analog, interface, mixed signal, timing and security products, human machine interface, security, Serial EEPROM memory, NOR FLASH memory, Embedded FLASH technologies, development systems, software and application-specific software libraries. We are also developing design, assembly, test and process technologies to enable new products and innovative features as well as to achieve further cost reductions and performance improvements in existing products.

In fiscal 2018, our R&D expenses were \$529.3 million, compared to \$545.3 million in fiscal 2017 and \$372.6 million in fiscal 2016. R&D expenses included share-based compensation expense of \$42.5 million in fiscal 2018, \$46.8 million in fiscal 2017 and \$32.0 million in fiscal 2016.

#### Sales and Distribution

##### General

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

Our direct sales force focuses on a wide variety of strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and technical support centers in major metropolitan areas in all three geographic markets. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our client engagement managers (CEMs), embedded system engineers (ESEs), and sales management have technical degrees or backgrounds and have been previously employed in high technology environments. We believe that the technical knowledge of our sales force is a key competitive advantage in the sale of our products. The primary mission of our ESE team is to provide technical assistance to customers and

to conduct periodic training sessions for the balance of our sales team. ESEs also frequently conduct technical seminars and workshops in major cities around the world.

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

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



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## Distribution

Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize us for our products and brand name and use distributors as an effective supply channel.

In fiscal 2018, we derived 54% of our net sales through distributors and 46% of our net sales from customers serviced directly by us. In fiscal 2017, we derived 55% of our net sales through distributors and 45% of our net sales from customers serviced directly by us. In fiscal 2016, we derived 53% of our net sales through distributors and 47% of our net sales from customers serviced directly by us. No distributor or end customer accounted for more than 10% of our net sales in fiscal 2018, fiscal 2017 or fiscal 2016.

We do not have long-term agreements with our distributors and we, or our distributors, may each terminate our relationship with little or no advanced notice. The loss of, or the disruption in the operations of, one or more of our distributors could reduce our future net sales in a given quarter and could result in an increase in inventory returns.

## Sales by Geography

Sales by geography for fiscal 2018, fiscal 2017 and fiscal 2016 were as follows (dollars in millions):

	Year Ended March 31,					
	2018	%	2017	%	2016	%
Americas	\$717.4	18.0	\$641.8	18.8	\$417.6	19.2
Europe	962.1	24.2	808.6	23.7	474.6	21.8
Asia	2,301.3	57.8	1,957.4	57.5	1,281.1	59.0
Total Sales	\$3,980.8	100.0	\$3,407.8	100.0	\$2,173.3	100.0

Sales to foreign customers accounted for approximately 85% of our net sales in fiscal 2018 and 84% of net sales in each of fiscal 2017 and 2016. Our sales to foreign customers have been predominately in Asia and Europe, which we attribute to the manufacturing strength in those areas for automotive, communications, computing, consumer and industrial control products. Americas' sales include sales to customers in the U.S., Canada, Central America and South America.

Sales to customers in China, including Hong Kong, accounted for approximately 30%, 32% and 30% of our net sales in fiscal 2018, 2017 and 2016, respectively. Sales to customers in Taiwan accounted for approximately 11%, 9% and 12% of our net sales in fiscal 2018, 2017 and 2016, respectively. We did not have sales into any other foreign countries that exceeded 10% of our net sales during fiscal 2018, 2017 or 2016.

Our international sales are substantially all U.S. dollar denominated. Although foreign sales are subject to certain government export restrictions, we have not experienced any material difficulties to date as a result of export restrictions.

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Our business tends to generate historically 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, and our acquisition activity (including our acquisition of Atmel and our pending acquisition of Microsemi) can have a more significant impact on our results than seasonality.

## Backlog

As of April 30, 2018, our backlog was approximately \$1,833.9 million, compared to \$1,624.1 million as of April 30, 2017. Our backlog includes all purchase orders scheduled for delivery within the subsequent 12 months.

We primarily produce standard products that can be shipped from inventory within a relatively short time after we receive an order. Our business and, to a large extent, that of the entire semiconductor industry, is characterized by short-term orders and shipment schedules. Orders constituting our current backlog are subject to changes in delivery schedules, or to cancellation at the customer's option without significant penalty. Thus, while backlog is useful for scheduling production, backlog as of any particular date may not be a reliable measure of our sales for any future period.

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### Competition

The semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and greater financial, technical, marketing, distribution and other resources than we have with which to pursue engineering, manufacturing, marketing and distribution of their products. We also compete with a number of companies that we believe have copied, cloned, pirated or reverse engineered our proprietary product lines in such countries as China and Taiwan. We are continuing to take actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis.

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

- performance
- analog, digital and mixed signal functionality and level of functional integration
- memory density
- low power consumption
  - extended voltage ranges
- reliability
- packaging alternatives
- complete development tool line

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

- ease of use
- functionality of application development systems
- dependable delivery, quality and availability
- technical and innovative service and support
- time to market
- price

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

### Patents, Licenses and Trademarks

We maintain a portfolio of U.S. and foreign patents, expiring on various dates through 2037. We also have numerous additional U.S. and foreign patent applications pending. We do not expect that the expiration of any particular patent will have a material impact on our business. While our intention is to continue to patent our technology and manufacturing processes, we believe that our continued success depends primarily on the technological skills and innovative capabilities of our personnel and our ability to rapidly commercialize new and enhanced products. As with any operating company, the scope and strength of our intellectual property assets, including our pending and existing patents, trademarks, copyrights, and other intellectual property rights may be insufficient to provide meaningful protection or commercial advantage. Moreover, pursuing violations of intellectual property rights on a worldwide basis is a complex challenge involving multinational patent, trademark, copyright and trade secret laws. Further, the laws of particular foreign countries often fail to protect our intellectual property rights to the same extent as the laws of the U.S.

We have also entered into certain intellectual property licenses and cross-licenses with other companies and those licenses relate to semiconductor products and manufacturing processes. As is typical in the semiconductor industry, we and our customers from time to time receive, and may continue to receive, demand letters from third parties asserting infringement of patent and other intellectual property rights. We diligently investigate all such notices and respond as we believe appropriate. In most cases we believe that we can obtain necessary licenses on commercially reasonable terms, however, we cannot be certain that this would be the case, or that litigation or damages for any past infringement could be avoided. Litigation, which could result in substantial costs and require significant attention from management, may be necessary to enforce our intellectual property rights, or to defend against claimed infringement of the rights of others. The failure to obtain necessary licenses, or the necessity of engaging in defensive litigation, could harm our business.

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Environmental Regulation

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

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

Employees

As of March 31, 2018, we had 14,234 employees. We have never had a work stoppage and believe that our employee relations are good.

Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers as of April 30, 2018:

Name	Age	Position
Steve Sanghi	62	Chief Executive Officer and Chairman of the Board
Ganesh Moorthy	58	President and Chief Operating Officer
J. Eric Bjornholt	47	Vice President, Chief Financial Officer
Stephen V. Drehobl	56	Vice President, MCU8 and Technology Development Division
Mitchell R. Little	66	Vice President, Worldwide Sales and Applications
Richard J. Simoncic	54	Vice President, Analog Power and Interface Division

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

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

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

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Mr. Drehobl has served as Vice President of the MCU8 and Technology Development Division since July 2001. He has been employed by Microchip since August 1989 and has served as a Vice President in various roles since February 1997. Mr. Drehobl holds a Bachelor of Technology degree from the University of Dayton.

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

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

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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-K 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 or political conditions in the U.S. or internationally;
- 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;
- changes in tax regulations and policies in the U.S. and other countries in which we do business including the impact of the Tax Cuts and Jobs Act of 2017 (the Act);
- new accounting pronouncements or changes in existing accounting standards and practices, including the impact of the new revenue recognition standard (ASC 606) on our financial statements;
- our ability to continue to realize the expected benefits of our acquisitions including our pending acquisition of Microsemi;
- our ability to ramp our factory capacity to meet customer demand;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- changes or fluctuations in customer order patterns and seasonality;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- 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 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;
- 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;
- disruptions in our business or our customers' businesses due to terrorist activity, armed conflict, war, worldwide oil prices and supply, public health concerns, 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;
- costs and outcomes of any current or future tax audits or any litigation or claims involving intellectual property, 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 conditions, the ongoing economic recovery and uncertainty surrounding the strength and duration of such recovery have caused our operating results to fluctuate significantly and make comparability between periods less meaningful.

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We may not fully realize the anticipated benefits of our completed or future acquisitions or divestitures including our pending 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. On March 1, 2018, we entered into a definitive agreement to acquire Microsemi. We expect the acquisition of Microsemi to close in June 2018. In addition, in April 2016, we completed our acquisition of Atmel; and in August 2015, we completed our acquisition of Micrel. 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 acquired companies and other third parties related to the transaction. In particular, as a result of our Atmel acquisition, we became involved with third-party claims, litigation and disputes related to the Atmel business. See Note 12 to our consolidated financial statements for information regarding pending litigation. 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 pending acquisition of Microsemi, we plan to use a significant portion of our cash balances and incur approximately \$8.0 billion of additional debt through borrowings under our credit agreement and issuance of new debt. We may fund future acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our credit agreement, 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 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, we may be contractually obligated with respect to certain continuing obligations to customers, vendors, landlords or other third parties. We may also have continuing obligations for pre-existing liabilities related to the 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 March 31, 2018, the principal amount of our outstanding indebtedness was \$4,481.3 million. In February 2017, we issued \$2,645.0 million of aggregate principal value of senior and junior convertible debt and amended our existing credit agreement to, among other things, increase certain covenant compliance ratios. The February 2017 credit agreement amendment included a new collateral agreement that secures our borrowings with all assets of our

guarantor subsidiaries with the exception of real property. We used a portion of the proceeds from the issuance of the 2017 senior and junior convertible debt to settle \$431.3 million in principal value of our 2007 Junior Debt and \$1,682.5 million to pay off the outstanding balance under our credit facility. At March 31, 2018, there were no outstanding borrowings under our credit facility which had a capacity of \$3,122.3 million and is comprised of one tranche expiring in February 2020. In connection with the closing of our pending acquisition of Microsemi, we expect to incur approximately \$8.0 billion of additional debt through borrowings under our credit agreement and issuance of new debt. As a result of such transactions, we will have a substantially greater amount of debt than we had maintained in the past. 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 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.

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Servicing our current debt and expected debt to finance the Microsemi acquisition will require a significant amount of cash, and we may not have sufficient cash flow from our business to fund future payments.

Our ability to make scheduled payments of principal, to pay interest on or to refinance our indebtedness, including our outstanding debentures and expected debt to be incurred to finance our acquisition of Microsemi, depends on our future performance, which is subject to economic, financial, competitive and other factors. 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.

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, 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.

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 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;
- our ability to ramp production and increase capacity, as needed, at our wafer fabrication and assembly and test facilities;
- 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 obtain adequate foundry and assembly and test capacity and supplies of raw materials and other supplies at acceptable prices;
- 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;

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

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Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The average selling prices of our microcontroller 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 fiscal 2018 and fiscal 2017, approximately 42% and 41%, respectively, of our net sales came from products that were produced at outside wafer foundries. We also use several contractors located primarily in Asia for a portion of the assembly and testing of our products. Specifically, during fiscal 2018, approximately 58% of our assembly requirements and 36% of our test requirements were performed by third party contractors compared to approximately 64% of our assembly requirements and 40% of our test requirements during fiscal 2017. Our reliance on third party contractors and foundries increased as a result of our acquisitions of Atmel, Micrel, SMSC, Supertex and ISSC. Microsemi relies on wafer foundries for a significant portion of its wafer fabrication needs. Accordingly, upon completion of our acquisition of Microsemi, our reliance on third party contractors and foundries will increase significantly. The disruption or termination of any of our contractors could harm our business and operating results.

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, 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. Although we operated at normal capacity levels during fiscal 2018 and fiscal 2017, there can be no assurance that such production levels will be maintained in future periods.

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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. Since a significant portion of our revenue is from consumer markets and international sales, our business tends to generate historically 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, and our acquisition activity (including our acquisition of Atmel and our pending acquisition of Microsemi) 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 selling through distributors.

Sales through distributors accounted for approximately 54% of our net sales in fiscal 2018 and approximately 55% of our net sales in fiscal 2017. 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 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.

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We may lose sales if our suppliers of raw materials and equipment fail to meet our needs.

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. This could impair sourcing flexibility or increase costs. 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 equipment which we need for capacity expansion at certain of our manufacturing facilities. 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 reported financial results may be adversely affected by new accounting pronouncements or changes in existing accounting standards and practices, including ASC 606 which will impact our revenue recognition.

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. In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 - Revenue from Contracts with Customers (Topic 606), which supersedes nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States of America (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. Upon our adoption of ASU 2014-09 beginning with our fiscal year commencing on April 1, 2018, we will no longer defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. Refer to Note 1 to our consolidated financial statements for additional information on the new guidance and its expected impact on us.

Business interruptions to our operations or the operations of our key vendors, subcontractors, licensees or customers, whether due to natural disasters 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 work stoppages, power loss, cyber attacks, incidents of terrorism or security risk, political instability, public health issues, telecommunications, transportation or other infrastructure failure, radioactive contamination, fire, earthquake, floods, 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.

In particular, 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.

Additionally, operations at our customers and licensees may be disrupted for a number of reasons. In the event of customer disruptions, sales of our products may decline and our revenue, profitability and financial condition could suffer. 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.

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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 original equipment manufacturers (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 or claims.

We are currently, and in the future may be, involved in legal proceedings or claims regarding patent infringement, other intellectual property rights, product failures, 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, could 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.

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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.

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 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.

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

Sales to foreign customers account for a substantial portion of our net sales. During fiscal 2018, approximately 85% of our net sales were made to foreign customers, including 30% in China. During fiscal 2017, approximately 84% of our net sales were made to foreign customers, including 32% in China.

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 or economic weakness in the China market may make it

difficult for us to achieve our desired sales volumes in China. In particular, economic conditions in China remain uncertain and we are unable to predict whether such uncertainty will continue or worsen in future periods.

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.

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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;
- potentially adverse tax consequences;
- economic uncertainty in the worldwide markets served by us;
- trade restrictions and changes in tariffs;
- 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 in international transport or delivery;
- public health conditions; 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.

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

We do not typically enter into long-term contracts with our 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 over 119,000 customers and our ten largest direct customers made up approximately 11% of our total revenue for fiscal 2018 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.

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 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.

With respect to our pending acquisition of Microsemi, a significant portion of their sales are, or may be derived from U.S. government agencies or customers whose principal sales are to U.S. government agencies. Such sales are subject to significant uncertainties regarding government spending and policy changes. Also, the U.S. government and its contractors may terminate their contracts with Microsemi at any time. Uncertainty with respect to governmental spending and policies, or termination of contracts associated with governmental projects could have a material adverse impact on the revenues and other benefits that we achieve from the Microsemi acquisition. Prior to the Microsemi transaction, Microchip has not derived significant sales from government related customers.

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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 and Thai baht, 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.

Interruptions in our information technology systems, or improper handling of data, could adversely affect our business.

We rely on the efficient and uninterrupted operation of complex information technology 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 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 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, attempts to breach our security and attempts to introduce malicious software into our IT systems; however, such attacks have not previously resulted in any material damage to us. Were future attacks successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. In recent years, we have implemented improvements to our protective measures which are not limited to the following: firewalls, antivirus measures, patches, log monitors, event correlation tools, routine backups with offsite retention of storage media, system audits, data partitioning and routine password modifications. There can be no assurance that such system improvements will be sufficient to prevent or limit the damage from any future cyber attacks or disruptions. Any such attack or disruption could result in additional costs related to rebuilding of our internal systems, defending litigation, 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.

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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 certain property, product defects, 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.

If we fail to maintain proper and effective internal control or remediate current or future 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.

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 annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. Although we have never identified a material weakness in our internal control over financial reporting, we have from time to time identified significant deficiencies. If we fail to remediate these 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.

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 with applicable regulations could result in fines, 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 may have to pass these same operating practices on to our suppliers. Our suppliers may refuse to implement these operating practices, or may charge us more for complying with them. 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

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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.

As required by 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 31, 2017. Other countries are considering similar regulations. If we cannot certify that we are using conflict-free minerals, 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 "conflict-free." 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.

Regulatory authorities in jurisdictions into which we ship our products could levy fines or restrict our ability to export or transfer 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 (EAR), International Traffic in Arms Regulations (ITAR) 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. Any one or more of these sanctions or a change in laws or regulations could have a material adverse effect on our business, financial condition and results of operations.

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 2005 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.

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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. Recently enacted U.S. tax legislation will significantly change 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 new legislation is unclear in some respects and will require interpretations and implementing 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 newly enacted U.S. tax legislation, along with the state tax impact of these changes and potential future cash distributions, will likely have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future 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 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 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:

- quarterly variations in our operating results or the operating results of other technology companies;
- developments with respect to timely completion or financing of our pending acquisition of Microsemi;
- general conditions in the semiconductor industry;
- global economic and financial conditions;
- changes in our financial guidance or our failure to meet such guidance;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- any other acquisitions we pursue or complete; and
- actual or anticipated announcements of technical innovations or new products by us or our competitors.

In addition, the stock market has from time to time 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.

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.

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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 including impairments related to Microsemi following our completion of our acquisition of such company.

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. As of March 31, 2018, we had goodwill of \$2,299.0 million and net intangible assets of \$1,662.0 million. In connection with the completion of our pending acquisition of Microsemi, our balance of goodwill and intangible assets will increase significantly. We review our indefinite-lived intangible assets, including goodwill, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets is more likely than not impaired. Factors that may be considered in assessing whether goodwill or intangible assets may be impaired include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on 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 2018 or in fiscal 2017. No material intangible asset impairment charges were recorded in fiscal 2018. In fiscal 2017, we recognized \$11.9 million of intangible asset impairment charges. If in future periods, we determine that our goodwill or intangible assets are impaired, we will be required to write down these assets which would have a negative effect on our consolidated financial statements.

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 acquisition of Atmel, we assumed unfunded 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 \$61.0 million at March 31, 2018. The 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 \$0.9 million in fiscal 2019 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 expenditure 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

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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 1B. UNRESOLVED STAFF COMMENTS

None.

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## Item 2. PROPERTIES

At March 31, 2018, we owned and used the facilities described below:

Location	Approximate Total Sq. Ft.	Uses
Gresham, Oregon	826,500	Wafer Fabrication (Fab 4); R&D Center; Administrative Offices; and Warehousing
Chacherngsao, Thailand	489,000	Assembly and Test; Wafer Probe; Sample Center; Warehousing; and Administrative Offices
Colorado Springs, Colorado	480,000	Manufacturing, Test, Research and Development, Computer and Service Functions, Design and Engineering
Calamba, Philippines	460,000	Wafer Probe, Test, Warehousing and Administrative Offices
Tempe, Arizona	457,000	Wafer Fabrication (Fab 2); R&D Center; Administrative Offices; and Warehousing
Chandler, Arizona	415,000	Executive and Administrative Offices; Wafer Probe; R&D Center; Sales and Marketing; and Computer and Service Functions
Bangalore, India	281,000	Research and Development; Sales and Marketing Support, and Administrative Offices
Chacherngsao, Thailand	215,000	Assembly and Test
Rousset, France	170,000	Design, Engineering, Test and Administrative
Nantes, France	77,000	Design, Engineering, Test and Probe, Administrative and Warehousing
Shanghai, China	21,000	Research and Development; Marketing Support, and Administrative Offices
Hsinchu, Taiwan	15,000	Design, Engineering and Administrative

The following additional facilities are under construction for additional office space: In Chandler, Arizona an additional 260,000 sq. ft, in Chennai, India an additional 96,000 sq. ft., and in Heilbronn, Germany an additional 46,000 sq. ft.

In addition to the facilities we own, we lease several research and development facilities and sales offices in North America, Europe and Asia. Our aggregate monthly rental payment for our leased facilities is approximately \$2.2 million.

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

See page 45 for a discussion of the capacity utilization of our manufacturing facilities.

## Item 3. LEGAL PROCEEDINGS

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

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Market under the symbol "MCHP." The following table sets forth the quarterly high and low closing prices of our common stock as reported by NASDAQ for our last two fiscal years.

Fiscal 2018	High	Low	Fiscal 2017	High	Low
First Quarter	\$86.86	\$72.15	First Quarter	\$52.99	\$47.16
Second Quarter	\$91.01	\$75.81	Second Quarter	\$62.80	\$49.49
Third Quarter	\$95.36	\$85.47	Third Quarter	\$66.18	\$58.41
Fourth Quarter	\$100.24	\$79.90	Fourth Quarter	\$74.52	\$62.59

## Stock Price Performance Graph

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

## Comparison of 5 year Cumulative Total Return\*

\*\$100 invested on March 31, 2013 in stock or index, including reinvestment of dividends  
Fiscal year ending March 31.

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	Cumulative Total Return					
	March 2013	March 2014	March 2015	March 2016	March 2017	March 2018
Microchip Technology Incorporated	100.00	134.48	141.94	144.39	226.37	285.15
S&P 500 Stock Index	100.00	121.86	137.37	139.82	163.83	186.75
Philadelphia Semiconductor Index	100.00	129.22	150.41	150.14	210.77	290.57

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

On May 9, 2018, there were approximately 566 holders of record of our common stock. This figure does not reflect beneficial ownership of shares held in nominee names.

We have been declaring and paying quarterly cash dividends on our common stock since the third quarter of fiscal 2003. Our total cash dividends paid were \$337.5 million, \$315.4 million and \$291.1 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively. The following table sets forth our quarterly cash dividends per common share and the total amount of the dividend payment for each quarter in fiscal 2018 and fiscal 2017 (amounts in millions, except per share amounts):

Fiscal 2018	Dividends	Aggregate	Fiscal 2017	Dividends	Aggregate
	per Common Share	Amount of Dividend Payment		per Common Share	Amount of Dividend Payment
First Quarter	\$ 0.3615	\$ 82.9	First Quarter	\$ 0.3595	\$ 77.2
Second Quarter	\$ 0.3620	\$ 84.5	Second Quarter	\$ 0.3600	\$ 77.6
Third Quarter	\$ 0.3625	\$ 84.9	Third Quarter	\$ 0.3605	\$ 78.0
Fourth Quarter	\$ 0.3630	\$ 85.2	Fourth Quarter	\$ 0.3610	\$ 82.6

On May 8, 2018, we declared a quarterly cash dividend of \$0.3635 per share, which will be paid on June 4, 2018 to stockholders of record on May 21, 2018 and the total amount of such dividend is expected to be approximately \$85.6 million. Our Board of Directors 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 of Directors. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions and our results of operations.

Refer to "Item 12 - Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters," at page 53 below, for the information required by Item 201(d) of Regulation S-K with respect to securities authorized for issuance under our equity compensation plans at March 31, 2018.

#### Issuer Purchases of Equity Securities

In May 2015, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2016, we had repurchased 8.6 million shares under this authorization for approximately \$363.8 million. In January 2016, our Board of Directors authorized an increase in the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the prior authorization. There were no repurchases of common stock during fiscal 2018. There is no expiration date associated with this repurchase program.





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## Item 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data for the five-year period ended March 31, 2018 in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Items 7 and 8 of this Form 10-K. Our consolidated statements of income data for each of the years in the three-year period ended March 31, 2018, and the balance sheet data as of March 31, 2018 and 2017, are derived from our audited consolidated financial statements, included in Item 8 of this Form 10-K. The statement of income data for the years ended March 31, 2015 and 2014 and balance sheet data as of March 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements not included herein (in the tables below all amounts are in millions, except per share data).

## Statement of Income Data:

	Year ended March 31,				
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015	2014
Net sales	\$3,980.8	\$3,407.8	\$2,173.3	\$2,147.0	\$1,931.2
Cost of sales	1,560.1	1,650.6	967.8	917.5	802.5
Research and development	529.3	545.3	372.6	349.5	305.0
Selling, general and administrative	452.1	499.8	301.7	274.8	267.3
Amortization of acquired intangible assets	485.5	337.7	174.9	176.8	94.5
Special charges and other, net <sup>(2)</sup>	17.5	98.6	4.0	2.8	3.0
Operating income	936.3	275.8	352.3	425.6	458.9
Losses on equity method investments	(0.2 )	(0.2 )	(0.3 )	(0.3 )	(0.2 )
Interest income	22.0	3.1	24.4	19.5	16.5
Interest expense	(199.0 )	(146.3 )	(104.0 )	(62.0 )	(48.7 )
Loss on settlement of convertible debt <sup>(3)</sup>	(16.0 )	(43.9 )	—	(50.6 )	—
Other income (loss), net	(5.8 )	1.3	8.9	13.7	5.9
Income from continuing operations before income taxes	737.3	89.8	281.3	345.9	432.4
Income tax (benefit) provision	481.9	(80.8 )	(42.6 )	(19.4 )	37.1
Net income from continuing operations	255.4	170.6	323.9	365.3	395.3
Less: Net loss attributable to noncontrolling interests	—	—	0.2	3.7	—
Net income from continuing operations attributable to Microchip Technology	\$255.4	\$170.6	\$324.1	\$369.0	\$395.3
Basic net income per common share from continuing operations attributable to Microchip Technology stockholders	\$1.10	\$0.79	\$1.59	\$1.84	\$1.99
Diluted net income per common share from continuing operations attributable to Microchip Technology stockholders	\$1.03	\$0.73	\$1.49	\$1.65	\$1.82
Dividends declared per common share	\$1.449	\$1.441	1.433	1.425	1.417
Basic common shares outstanding	232.9	217.2	203.4	200.9	198.3
Diluted common shares outstanding	248.9	234.8	217.4	223.6	217.6

<sup>(1)</sup> Refer to Note 2 to our consolidated financial statements for an explanation of our material business combinations during fiscal 2017 and fiscal 2016.

<sup>(2)</sup> The following table presents a summary of special charges and other, net for the five-year period ended March 31, 2018:



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	March 31,				
	2018	2017	2016	2015	2014
Acquisition related expenses	\$(2.5 )	\$98.6	\$11.2	\$2.8	\$1.6
Legal settlement	—	—	(7.2 )	—	—
Adjustment to contingent consideration	—	—	—	—	1.4
Non-acquisition related contract exit costs and other	\$20.0	\$—	\$—	\$—	\$—
Totals	\$17.5	\$98.6	\$4.0	\$2.8	\$3.0

Discussions of the special charges and other, net for fiscal 2018, fiscal 2017 and fiscal 2016 are contained in Note 3 to our consolidated financial statements.

During fiscal 2015 and fiscal 2014, we incurred special charges of \$2.8 million and \$3.0 million, respectively, related to severance, office closing and other costs associated with our acquisition activity.

<sup>(3)</sup> Refer to Note 11 to our consolidated financial statements for an explanation of the loss on settlement of debt of approximately \$16.0 million in fiscal 2018 and \$43.9 million in fiscal 2017.

## Balance Sheet Data:

	March 31,				
	2018	2017	2016	2015	2014
Working capital <sup>(1)</sup>	\$1,338.9	\$1,600.5	\$2,714.7	\$2,310.6	\$1,633.3
Total assets	8,257.2	7,686.9	5,537.9	4,780.7	4,067.6
Long-term obligations, less current portion <sup>(1)</sup>	1,758.4	2,900.5	2,453.4	1,826.9	1,003.3
Microchip Technology Stockholders' equity	3,279.8	3,270.7	2,150.9	2,044.7	2,135.5

<sup>(1)</sup> \$1,309.9 million of the 2015 senior convertible debt is classified as short-term as of March 31, 2018 as it is currently convertible.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-looking Statements

This report, including "Item 1 – Business," "Item 1A – Risk Factors," and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "plan," "expect," "future," "continue," "intend" and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth under "Risk Factors," beginning at page 13 and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. These forward-looking statements include, without limitation, statements regarding the following:

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

- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities will provide sufficient capacity to respond to increases in demand with modest incremental capital expenditures;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- Our anticipated level of capital expenditures;

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Continuation and amount of quarterly cash dividends;

That the Atmel acquisition was structured in a manner that enabled us to utilize a substantial portion of the cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries in a tax efficient manner and that our determinations with respect to the tax consequences of the acquisition are reasonable;

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;

That our U.S. operations and capital requirements are funded primarily by cash generated from U.S. operating activities, which has been and is expected to be sufficient to meet our business needs in the U.S. for the foreseeable future;

The impact of seasonality on our business;

The accuracy of our estimates used in valuing employee equity awards;

That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;

The recoverability of our deferred tax assets;

The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;

That we intend to pay the one-time transition tax over a period of eight years;

Our belief that our determinations with respect to the tax consequences of the Atmel acquisition are reasonable;

Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;

Our belief that the estimates used in preparing our consolidated financial statements are reasonable;

Our actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis;

Our ability to obtain patents and intellectual property licenses and minimize the effects of litigation;

The level of risk we are exposed to for product liability claims or indemnification claims;

- The effect of fluctuations in market interest rates on our income and/or cash flows;

The effect of fluctuations in currency rates;

That a portion of our offshore earnings is considered to be permanently reinvested offshore and the remaining portion is earmarked for repatriation;

That we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities;

That a significant portion of our future cash generation will be in our foreign subsidiaries;

Our intention to satisfy the lesser of the principal amount or the conversion value of our debentures in cash;

Changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings;

Our belief that the effect the new tax laws will have on low-taxed income of foreign subsidiaries will have the most significant, adverse impact;

Our intent to maintain a high-quality investment portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield; and

Our ability to collect accounts receivable.

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

Introduction

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document, as well as with other sections of this Annual Report on Form 10-K, including "Item 1 – Business;" "Item 6 – Selected Financial Data;" and "Item 8 – Financial Statements and Supplementary Data."

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of our overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for fiscal 2018 compared to fiscal 2017, and for fiscal 2017 compared to fiscal 2016. We then

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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."

### Recent Developments

On March 1, 2018, we entered into the Merger Agreement to acquire Microsemi for \$68.78 per share in cash. The acquisition price represents a total equity value of approximately \$8.35 billion, and a total enterprise value of about \$10.15 billion, after accounting for Microsemi's cash and investments, net of debt, on its balance sheet at December 31, 2017. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. Microsemi recorded net sales of \$492.2 million for its second fiscal quarter ended April 1, 2018 compared to \$442.9 million for its second fiscal quarter ended April 2, 2017 and net sales of \$960.9 million for the six months ended April 1, 2018 compared to \$878.4 million for the six months ended April 2, 2017. Microsemi is headquartered in Aliso Viejo, California, and has approximately 4,800 employees globally.

The Board of Directors of each of Microchip and Microsemi have unanimously approved the Merger and the Merger Agreement. The transaction is subject to customary closing conditions including regulatory approvals and approval by Microsemi stockholders. There is no financing condition to the closing of the Merger. Assuming the timely receipt of the aforementioned regulatory approvals and the satisfaction of the other closing conditions, we anticipate that the merger will be completed in late May/early June 2018.

We plan to finance the acquisition of Microsemi with a combination of cash and cash equivalents, new borrowings on our line of credit, and the issuance of new debt. For further details, see the discussion in Liquidity and Capital Resources.

### Strategy

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

We sell our products to a broad base of domestic and international customers across a variety of industries. The principal markets that we serve include consumer, automotive, industrial, office communication, computing and aerospace. 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.

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

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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, Flash-IP systems, development systems, software and application-specific software libraries. We are also developing new design and process technologies to achieve further cost reductions and performance improvements in our products.

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

See "Our operating results are impacted by both seasonality and the wide fluctuation of supply and demand in the semiconductor industry," on page 17 for discussion of the impact of seasonality on our business.

## Critical Accounting Policies and Estimates

### General

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

### Revenue Recognition – Distributors

Our distributors worldwide generally have broad price protection and product return rights which prevent the sales pricing from being fixed or determinable at the time of shipment to our distributors. Therefore, revenue recognition is

deferred until the pricing uncertainty is resolved, which generally occurs when the distributor sells the product to their customer. At the time of shipment to these distributors, we record a trade receivable for the selling price as there is a legally enforceable right to payment, relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor, and record the gross margin in deferred income on shipments to distributors on our consolidated balance sheets.

In connection with our acquisitions of Atmel and Micrel, we acquired certain distributor relationships where revenue was recognized upon shipment to the distributors based on certain contractual terms or prevailing business practices that resulted in the price being fixed and determinable at such time. Following an acquisition, we undertake efforts to align the contract terms and business practices of the acquired entity with our own. Once these efforts are complete, revenue recognition is changed. With respect to such distributor relationships acquired in the Atmel acquisition, as of October 1, 2016, these business practices were conformed to those of our other distributors resulting in the deferral of revenue recognition until the distributor sells the product to their customers. With respect to such distributor relationships acquired in the Micrel acquisition, in the December 2015 quarter,

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these distributor contracts were changed to be consistent with those of our other distributors which resulted in the deferral of revenue recognition under such contracts until the distributor sells the product to their customers.

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

We sell the majority of the items in our product catalog to our distributors worldwide at a uniform list price. However, distributors resell our products to end customers at a broad range of individually negotiated price points. The majority of our distributors' resales require a reduction from the original list price paid. Often, under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information to us regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors. Discounts to a price less than our cost have historically been rare. The effect of granting these credits establishes the net selling price to our distributors for the product and results in the net revenue recognized by us when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributors in the future. We do not reduce deferred income on shipments to distributors or accounts receivable by anticipated future concessions; rather, price concessions are typically recorded against deferred income on shipments to distributors and accounts receivable when incurred, which is generally at the time the distributor sells the product. At March 31, 2018, we had approximately \$479.6 million of deferred revenue and \$145.8 million in deferred cost of sales recognized as \$333.8 million of deferred income on shipments to distributors. At March 31, 2017, we had approximately \$418.0 million of deferred revenue and \$125.2 million in deferred cost of sales recognized as \$292.8 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in our income statement will be lower than the amount reflected on the balance sheet due to additional price credits to be granted to the distributors when the product is sold to their customers. These additional price credits historically have resulted in the deferred income approximating the overall gross margins that we recognize in the distribution channel of our business.

Distributor advances, reflected as a reduction of deferred income on shipments to distributors on our consolidated balance sheets, totaled \$203.9 million at March 31, 2018 and March 31, 2017. On sales to distributors, our payment terms generally require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. The sales price to our distributors may be higher than the amount that the distributors will ultimately owe us because distributors often negotiate price reductions after purchasing products from us and such reductions are often significant. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of our distributors. As such, we have entered into agreements with certain distributors whereby we advance cash to the distributors to reduce the distributors' working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on our revenue recognition or our consolidated statements of income. We process discounts taken by distributors against our deferred income on shipments to distributors' balance and true-up the advanced amounts generally after the end of each completed fiscal quarter. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be canceled by us at any time.

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

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

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### Recent Updates to Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606), which superseded nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States of America (US GAAP). In August 2015, the FASB issued ASU 2015-14-Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which 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 was effective for the Company beginning April 1, 2018. 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 new standard allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08-Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10-Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU 2016-12-Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group. For a discussion of the financial statement impact related to the adoption of these standards, see "Recently Issued Accounting Pronouncements Not Yet Adopted" in Note 1 to our consolidated financial statements.

### Business Combinations

All of our business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense or directly in contributed capital. The measurement of the fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. Under the acquisition method of accounting, the aggregate amount of consideration we pay for a company is allocated to net tangible assets and intangible assets based on their estimated fair values as of the acquisition date. The excess of the purchase price over the value of the net tangible assets and intangible assets is recorded to goodwill. On an annual basis, we test goodwill for impairment and through March 31, 2018, we have never recorded an impairment charge against our goodwill balance.

### Share-based Compensation

We measure at fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, restricted stock units (RSUs) and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. For the past several years, we have utilized RSUs as our primary equity incentive compensation instrument for employees. Share-based compensation cost is measured

on the grant date based on the fair market value of our common stock discounted for expected future dividends and is recognized as expense on a straight-line basis over the requisite service periods. Total share-based compensation expense recognized in fiscal 2018 was \$93.2 million, of which \$79.4 million was reflected in operating expenses and \$13.8 million was reflected in cost of sales. Total share-based compensation included in our inventory balance was \$8.1 million at March 31, 2018.

During the year ended March 31, 2017, we elected to early adopt ASU 2016-09, Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718). Under this standard, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. We have elected to recognize forfeitures as they occur. Prior to the adoption of ASU 2016-09, we estimated the number of share-based awards to be forfeited due to employee turnover.

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

### Inventories

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

In periods where our production levels are substantially below our normal operating capacity, the reduced production levels of our manufacturing facilities are charged directly to cost of sales. As a result of production being below normal operating levels in our wafer fabrication facilities, approximately \$1.9 million was charged to cost of sales in fiscal 2016. We operated at slightly below normal capacity levels in our Thailand assembly and test facilities during the third quarter of fiscal 2016, resulting in approximately \$1.0 million in charges to cost of sales. There was no charge to cost of sales for reduced production levels in each of fiscal 2018 and fiscal 2017.

### Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We provided valuation allowances for certain of our deferred tax assets, including state net operating loss carryforwards and state tax credits, where it is more likely than not that some portion, or all of such assets, will not be realized. Due to the Tax Cuts and Jobs Act (the "Act"), we released our valuation allowance on foreign tax credits during the period ending March 31, 2018, which was provisional. We are still evaluating how the Act impacts our valuation allowance on state net operating loss carryforwards and state tax credits, and we may report an adjustment to the valuation allowances under Staff Accounting Bulletin ("SAB") 118 in subsequent quarters. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Various taxing authorities in the U.S. and other countries in which we do business scrutinize the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. During the year ended March 31, 2018, various foreign



jurisdictions finalized their audits. The close of these audits did not have an adverse impact on our financial statements. 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.

The accounting model as defined in Accounting Standards Codification ("ASC") 740 related to the valuation of uncertain tax positions requires us to presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information and that each tax position will be evaluated without consideration of the possibility of offset or aggregation with other positions. The recognition requirement for the liability exists even if we believe the possibility of examination by a taxing authority or discovery of the related risk matters is remote or where we have a long history of the

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taxing authority not performing an exam or overlooking an issue. We will record an adjustment to a previously recorded position if new information or facts related to the position are identified in a subsequent period. All adjustments to the positions are recorded through the income statement. Generally, adjustments will be recorded in periods subsequent to the initial recognition if the taxing authority has completed an audit of the period or if the statute of limitation expires. Due to the inherent uncertainty in the estimation process and in consideration of the criteria of the accounting model, amounts recognized in the financial statements in periods subsequent to the initial recognition may significantly differ from the estimated exposure of the position under the accounting model.

On December 22, 2017, the Act was enacted into law. The Act provides for numerous significant tax law changes and modifications including the reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and the creation of new taxes on certain foreign-sourced earnings. As a fiscal year-end taxpayer, certain provisions of the Act began to impact us in our third quarter of fiscal 2018, while other provisions will impact us beginning in fiscal 2019.

The corporate tax rate reduction is effective as of January 1, 2018. Since we have a fiscal year rather than a calendar year, we are subject to rules relating to transitional tax rates. As a result, our fiscal 2018 federal statutory rate will be a blended rate of 31.5%.

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

Due to the complexity of the new tax on low-taxed income of foreign subsidiaries, we are continuing to evaluate this provision of the Act and the application of ASC 740. Based on recent FASB deliberations, it appears we will be allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income as a current-period expense when incurred or (2) factoring such amounts into our measurement of our deferred taxes. Our selection of an accounting policy will depend, in part, on analyzing our facts to determine what the impact is expected to be under each method.

### Senior and Junior Subordinated Convertible Debt

We separately account for the liability and equity components of our senior and junior subordinated convertible debt in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statements of income. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding senior and junior subordinated convertible debt in our diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have been met. We apply the treasury stock method as we have the intent and have adopted an accounting policy to settle the principal amount of the senior and junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average fair value of our common stock for a reporting period exceeds the conversion prices per share and adjusts as dividends are recorded in the future.

## Contingencies

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

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

## Results of Continuing Operations

The following table sets forth certain operational data as a percentage of net sales for the fiscal years indicated:

	Year Ended March 31,		
	2018	2017	2016
Net sales	100.0%	100.0%	100.0%
Cost of sales	39.2	48.4	44.5
Gross profit	60.8	51.6	55.5
Research and development	13.3	16.0	17.1
Selling, general and administrative	11.4	14.7	13.9
Amortization of acquired intangible assets	12.2	9.9	8.1
Special charges and other, net	0.4	2.9	0.2
Operating income	23.5 %	8.1 %	16.2 %

## Net Sales

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

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

	Year Ended March 31,				
	2018	% Change	2017	% Change	2016
Net Sales	\$3,980.8	16.8 %	\$3,407.8	56.8 %	\$2,173.3

The increases in net sales in fiscal 2018 compared to fiscal 2017 and in fiscal 2017 compared to fiscal 2016 were impacted by the following two accounting factors, which occurred in fiscal 2017:

- an amount of revenue that could not be recognized under generally accepted accounting principles in the United States of America relating to Atmel's inventory in the distribution channel on the acquisition date; and
- the impact of the change in timing of revenue recognition for some of Atmel's distributors from shipment to the distributor to upon sale by the distributor to their customers.

Excluding the impact of the two accounting factors described above, net sales for fiscal 2018 compared to fiscal 2017 increased 14.0%. This increase was primarily due to growth in our business driven by favorable economic and semiconductor industry conditions. Approximately 6% of the increase in net sales during this period was due to increases in the overall average selling price of products sold as a result of favorable market conditions and product and geographic mix. The remaining sales growth was primarily due to a net increase in the volume of products sold. We sell a large number of products to a large and diverse customer base and there was not any product, customer or market that accounted for a material portion of the increase. The overall average selling price of our products is affected by pricing declines over the life of individual

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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.

Excluding the impact of the two accounting factors described above, net sales for fiscal 2017 compared to fiscal 2016 increased 60.7%. This increase was primarily due to our acquisition of Atmel and also due to growth in our historical business driven by general economic and semiconductor industry conditions. Average selling prices were not a material factor in the sales growth as they were flat in fiscal 2017 compared to fiscal 2016. Sales growth was primarily driven by the increase in the number of units of our semiconductor products sold in fiscal 2017 compared to fiscal 2016 as a result of our acquisition of Atmel and growth in our historical business.

As discussed in the following paragraphs, there were revenue gains across our product lines with the largest dollar value increase in microcontrollers, which is our largest product line. This growth was due to favorable economic and semiconductor conditions and market share gains. Key factors impacting the amount of net sales during the last three fiscal years include:

- our acquisition of Atmel, which closed on April 4, 2016;
- our acquisition of Micrel, which closed on August 3, 2015;
- global economic conditions in the markets we serve;
- semiconductor industry conditions;
- our new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products; and
- continued market share gains in the segments of the markets we address.

Net sales by product line for fiscal 2018, 2017 and 2016 were as follows (dollars in millions):

	Year Ended March 31,					
	2018	%	2017	%	2016	%
Microcontrollers	\$2,619.1	65.9	\$2,147.3	63.0	\$1,345.5	61.9
Analog, interface, mixed signal and timing products	952.0	23.9	888.9	26.1	595.5	27.4
Memory products	199.7	5.0	184.1	5.4	116.9	5.4
Technology licensing	104.8	2.6	91.2	2.7	89.1	4.1
Multi-market and other	105.2	2.6	96.3	2.8	26.3	1.2
Total net sales	\$3,980.8	100.0	\$3,407.8	100.0	\$2,173.3	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 65.9%, 63.0% and 61.9% of our net sales in fiscal 2018, 2017 and 2016, respectively.

Net sales of our microcontroller products increased approximately 22.0% in fiscal 2018 compared to fiscal 2017, and increased approximately 59.6% in fiscal 2017 compared to fiscal 2016. The increase in net sales in fiscal 2018 compared to fiscal 2017 resulted primarily from growth in our business driven by general economic and semiconductor industry conditions and market share gains. The increase in net sales in fiscal 2017 compared to fiscal 2016 resulted primarily from our acquisition of Atmel and also by growth in our historical business driven by general economic and semiconductor industry conditions.

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

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### Analog, Interface, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 23.9%, 26.1% and 27.4% of our net sales in fiscal 2018, 2017 and 2016, respectively.

Net sales of our analog, interface, mixed signal and timing products increased approximately 7.1% in fiscal 2018 compared to fiscal 2017 and increased approximately 49.3% in fiscal 2017 compared to fiscal 2016. The increase in net sales in fiscal 2018 compared to fiscal 2017 resulted primarily from growth in our business driven by general economic and semiconductor industry conditions and market share gains. The increase in net sales in fiscal 2017 compared to fiscal 2016 was driven primarily by our acquisition of Atmel and also by growth in our historical business driven by general economic and semiconductor industry conditions. Additionally, some new analog products, which are integrated with a microcontroller core, are classified as microcontrollers, rather than analog. This classification adversely impacted some of the increases in net sales of analog products during fiscal 2018 compared to fiscal 2017 and fiscal 2017 compared to fiscal 2016.

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

### Memory Products

Sales of our memory products accounted for approximately 5.0% of our net sales in fiscal 2018 and approximately 5.4% of our net sales in each of fiscal 2017 and fiscal 2016.

Net sales of our memory products increased approximately 8.5% in fiscal 2018 compared to fiscal 2017, and increased approximately 57.5% in fiscal 2017 compared to fiscal 2016. The increase in memory product net sales in fiscal 2018 compared to fiscal 2017 resulted primarily from growth in our business driven by general economic and semiconductor industry conditions. The increase in memory product net sales in fiscal 2017 compared to fiscal 2016 was driven primarily by our acquisition of Atmel.

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

### Technology Licensing

Technology licensing revenue includes a combination of royalties associated with licenses for the use of our SuperFlash and other technologies and fees for engineering services. Technology licensing accounted for approximately 2.6%, 2.7% and 4.1% of our net sales in fiscal 2018, 2017 and 2016, respectively.

Net sales related to our technology licensing increased approximately 14.9% in fiscal 2018 compared to fiscal 2017 and increased approximately 2.4% in fiscal 2017 compared to fiscal 2016. Revenue from technology licensing can



fluctuate over time based on the production activities of our licensees as well as general economic and semiconductor industry conditions.

#### Multi-market and Other

Multi-market and Other (MMO) consists of manufacturing services (wafer foundry and assembly and test subcontracting), legacy application specific integrated circuits, complex programmable logic devices, and products for aerospace applications. Revenue from these services and products accounted for approximately 2.6%, 2.8% and 1.2% of our net sales in fiscal 2018, 2017 and 2016, respectively.

Net sales related to these services and products increased approximately \$8.9 million in fiscal 2018 compared to fiscal 2017 and increased approximately \$70.0 million in fiscal 2017 compared to fiscal 2016. The increase in MMO net sales in fiscal 2018 compared to fiscal 2017 resulted primarily from growth in our business driven by general economic and

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semiconductor industry conditions. The increase in MMO net sales in fiscal 2017 compared to fiscal 2016 was driven primarily by our acquisition of Atmel. MMO net sales can fluctuate over time based on general economic and semiconductor industry conditions as well as changes in demand for our manufacturing services (wafer foundry and assembly and test subcontracting).

## Distribution

Distributors accounted for approximately 54% of our net sales in fiscal 2018, approximately 55% of our net sales in fiscal 2017 and approximately 53% of our net sales in fiscal 2016. No single distributor accounted for more than 10% of our net sales in each of fiscal 2018, 2017 or 2016. Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize Microchip for its products and brand name and use distributors as an effective supply channel.

Generally, we do not have long-term agreements with our distributors and we, or our distributors, may terminate our relationships with each other with little or no advance notice. The loss of, or the disruption in the operations of, one or more of our distributors could reduce our future net sales in a given quarter and could result in an increase in inventory returns.

At March 31, 2018, our distributors maintained 36 days of inventory of our products compared to 33 days at March 31, 2017 and 32 days at March 31, 2016. Over the past ten fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 27 days and 47 days. Prior to our adoption of ASU 2014-09-Revenue from Contracts with Customers (Topic 606) on April 1, 2018, we did not believe that inventory holding patterns at our distributors materially impacted our net sales due to the fact that we recognized revenue based on when the distributor sells the product to their customer. Upon our adoption of Topic 606 commencing on April 1, 2018, we will be required to recognize revenue from distributors at the time our products are sold to the distributor. As a result, beginning April 1, 2018, inventory holding patterns at our distributors may have a material impact on our net sales.

## Sales by Geography

Sales by geography for fiscal 2018, 2017 and 2016 were as follows (dollars in millions):

	Year Ended March 31,					
	2018	%	2017	%	2016	%
Americas	\$717.4	18.0	\$641.8	18.8	\$417.6	19.2
Europe	962.1	24.2	808.6	23.7	474.6	21.8
Asia	2,301.3	57.8	1,957.4	57.5	1,281.1	59.0
Total net sales	\$3,980.8	100.0	\$3,407.8	100.0	\$2,173.3	100.0

Americas sales include sales to customers in the U.S., Canada, Central America and South America. Sales to foreign customers accounted for approximately 85% of our total net sales in fiscal 2018 and 84% of our total net sales in each of fiscal 2017 and 2016. Substantially all of our foreign sales are U.S. dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their manufacturing operations to Asia and growth in demand from the emerging Asian market. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

Sales to customers in China, including Hong Kong, accounted for approximately 30%, 32% and 30% of our net sales in fiscal 2018, 2017 and 2016, respectively. Sales to customers in Taiwan accounted for approximately 11%, 9% and 12% of our net sales in fiscal 2018, 2017 and 2016, respectively. We did not have sales into any other foreign

countries that exceeded 10% of our net sales during fiscal 2018, 2017 or 2016.

#### Gross Profit

Our gross profit was \$2,420.7 million in fiscal 2018, \$1,757.2 million in fiscal 2017 and \$1,205.5 million in fiscal 2016. Gross profit as a percentage of sales was 60.8% in fiscal 2018, 51.6% in fiscal 2017 and 55.5% in fiscal 2016.

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The most significant factors affecting our gross profit percentage in the periods covered by this Form 10-K were:

charges of approximately \$186.7 million in fiscal 2017 and approximately \$44.9 million in fiscal 2016 related to the recognition of acquired inventory at fair value as a result of our acquisitions which increased the value of our acquired inventory and subsequently increased our cost of sales and reduced our gross margins when the related revenue was recognized;

for each of fiscal 2017 and fiscal 2016, inventory write-downs being higher than the gross margin impact of sales of inventory that was previously written down; and

for fiscal 2018, inventory write-downs being lower than the gross margin impact of sales of inventory that was previously written down; and

fluctuations in the product mix of microcontrollers, analog, interface, mixed signal and timing products, memory products and technology licensing.

Other factors that impacted our gross profit percentage in the periods covered by this Form 10-K include:

continual cost reductions in wafer fabrication and assembly and test manufacturing, such as new manufacturing technologies and more efficient manufacturing techniques;

lower depreciation as a percentage of cost of sales;

increases in the level of assembly and test operations performed at our internal facilities compared to assembly and test operations performed by our third-party contractors, which lower our manufacturing costs as these functions are performed internally; and

favorable market conditions and product mix.

We adjust our wafer fabrication and assembly and test capacity utilization as required to respond to actual and anticipated business and industry-related conditions. When production levels are below normal capacity, we charge cost of sales for the unabsorbed capacity. In fiscal 2018 and fiscal 2017, our wafer fabrication facilities and assembly and test facilities operated at normal capacity levels, which we measure as a percentage of the capacity of the installed equipment. During the third quarter of fiscal 2016, our wafer fabrication facilities operated below normal capacity levels in response to uncertain global economic conditions and our inventory position at the time. As a result of production being below normal operating levels in our wafer fabrication facilities, approximately \$1.9 million was charged to cost of sales in fiscal 2016. We operated at slightly below normal capacity levels in our Thailand assembly and test facilities during the third quarter of fiscal 2016, resulting in approximately \$1.0 million in charges to cost of sales.

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%. As a result of our acquisition of Micrel in August 2015, we acquired a 6-inch wafer fabrication facility in San Jose, California and have since transitioned products previously manufactured at this facility to our Fab 2, Fab 4 and Fab 5 facilities. During the quarter ended December 31, 2016, we decommissioned this San Jose facility and, in June 2017, we completed the sale of these assets for proceeds of \$10.0 million.

Our overall inventory levels were \$476.2 million at March 31, 2018, compared to \$417.2 million at March 31, 2017 and \$306.8 million at March 31, 2016. We maintained 112 days of inventory on our balance sheet at March 31, 2018

compared to 103 days of inventory at March 31, 2017 and 110 days at March 31, 2016. We expect our days of inventory levels in the June 2018 quarter to be down six days to up four days compared to the March 2018 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, memory products and technology licensing revenue and the percentage of net sales of each of these products in a particular quarter, as well as manufacturing yields, fixed cost absorption, and competitive and economic conditions in the markets we serve.

We operate assembly and test facilities in Thailand and Philippines and, as a result of our acquisition of Atmel, we acquired a test facility in Calamba, Philippines. During fiscal 2018, approximately 42% of our assembly requirements were performed in our Thailand facilities, compared to approximately 36% during fiscal 2017 and approximately 53% during fiscal 2016. The

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percentage of our assembly work that is performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry, our internal capacity capabilities and our acquisition activities. Third-party contractors located primarily in Asia perform the balance of our assembly operations. During fiscal 2018 and fiscal 2017, approximately 64% and 60%, respectively, of our test requirements were performed in our Thailand and Philippines facilities compared to approximately 81% of our test requirements performed in our Thailand facilities during fiscal 2016. The increase in the percentage of assembly and test work that was performed internally in fiscal 2018 compared to fiscal 2017 is primarily due to our recent investments in assembly and test equipment, which have increased our internal capacity capabilities. The primary reason for the percentage reduction in the assembly and test operations performed internally in fiscal 2017 compared to fiscal 2016 is our acquisition of Atmel, which outsourced most of these 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 rely on outside wafer foundries for a significant portion of our wafer fabrication requirements. During fiscal 2018, approximately 42% of our total net sales came from products that were produced at outside wafer foundries compared to approximately 41% during fiscal 2017 and approximately 39% during fiscal 2016.

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 fiscal 2018 were \$529.3 million, or 13.3% of sales, compared to \$545.3 million, or 16.0% of sales, for fiscal 2017 and \$372.6 million, or 17.1% of sales, for fiscal 2016. 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 \$16.0 million, or 2.9%, for fiscal 2018 compared to fiscal 2017 primarily due to reductions in personnel and associated costs in connection with synergies realized from our Atmel acquisition and lower share-based compensation expense due to accelerated vesting of equity awards held by terminated Atmel employees during fiscal 2017. Our goal is to continue to be more efficient with our operating expenses as our revenue increases. R&D expenses increased \$172.7 million, or 46.3%, for fiscal 2017 compared to fiscal 2016 primarily due to additional compensation and other costs from our acquisition of Atmel. R&D as a percentage of revenue decreased in fiscal 2018 compared to fiscal 2017 and in fiscal 2017 compared to fiscal 2016 due to our restructuring activities and synergies realized following the acquisitions of Atmel and Micrel.

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

### Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2018 were \$452.1 million, or 11.4% of sales, compared to \$499.8 million, or 14.7% of sales, for fiscal 2017, and \$301.7 million, or 13.9% of sales, for fiscal 2016. 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 in sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased \$47.7 million, or 9.5%, for fiscal 2018 compared to fiscal 2017 due primarily to reductions in personnel and associated costs in connection with synergies realized from our Atmel acquisition and lower share-based compensation expense due to accelerated vesting of equity awards held by terminated Atmel employees during fiscal 2017. Our goal is to continue to be more efficient with our operating expenses as our revenue increases. Selling, general and administrative expenses increased \$198.1 million, or 65.7%, for fiscal 2017 compared to fiscal 2016 due primarily to additional costs from our acquisition of Atmel.

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

### Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets in fiscal 2018 was \$485.5 million compared to \$337.7 million in fiscal 2017 and \$174.9 million in fiscal 2016. The primary reason for the increase in acquired intangible asset amortization for fiscal 2018 compared to fiscal 2017 was amortization of in-process R&D assets from our acquisition of Atmel, which assets started to amortize during the third quarter of fiscal 2017. The primary reasons for the increase in acquired intangible asset amortization for fiscal 2017 compared to fiscal 2016 were increased amortization from our acquisitions of Atmel and Micrel partially offset by decreased amortization from our customer-related intangible assets from our acquisitions of Standard Microsystems Corporation (SMSC) and ISSC Technologies Corporation (ISSC).

### Special Charges and Other, Net

During fiscal 2018, we incurred special charges and other, net of \$17.5 million comprised primarily of a \$19.5 million charge for fees associated with transitioning from a public utility provider in Oregon to a lower cost direct access provider. During fiscal 2017, we incurred special charges and other, net of \$98.6 million comprised primarily of restructuring charges. Our restructuring activities include workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations. In connection with these activities we incurred employee separation costs, contract exit costs, other operating expenses and intangible asset impairment losses. The impairment losses were recognized as a result of changes in the combined product roadmaps after the acquisition of Atmel that affected the use and life of these assets. During fiscal 2016, we incurred special charges and other, net of \$4.0 million comprised of \$11.2 million of restructuring charges associated with our acquisition activity and legal settlement costs of approximately \$4.3 million partially offset by special income and other, net of \$11.5 million related to an insurance settlement for reimbursement of funds we previously paid to settle a lawsuit in the second quarter of fiscal 2013.

### Other Income (Expense)

Interest income in fiscal 2018 was \$22.0 million compared to \$3.1 million in fiscal 2017 and \$24.4 million in fiscal 2016. The primary reason for the increase in interest income in fiscal 2018 compared to fiscal 2017 relates to higher cash and investment balances. The primary reason for the decrease in interest income in fiscal 2017 compared to fiscal 2016 relates to lower invested cash balances as we used cash to finance a significant portion of the purchase price of our acquisition of Atmel.

Interest expense in fiscal 2018 was \$199.0 million compared to \$146.3 million in fiscal 2017 and \$104.0 million in fiscal 2016. The primary reasons for the increase in interest expense in fiscal 2018 compared to fiscal 2017 relates to our issuance of \$2,645.0 million of convertible notes in February 2017 partially offset by lower interest expense on amounts borrowed under our credit facility. In February 2017, we paid off the remaining balance on our credit facility. The primary reasons for the increase in interest expense in fiscal 2017 compared to fiscal 2016 relates to higher interest expense on amounts borrowed under our credit facility to partially finance our acquisition of Atmel, as well as the aforementioned issuance of convertible notes in February 2017.

Loss on settlement of convertible debt in fiscal 2018 and fiscal 2017 was \$16.0 million and \$43.9 million, respectively. In fiscal 2018 and fiscal 2017, we settled \$143.8 million and \$431.3 million, respectively, in principal of our 2007 Junior Subordinated Convertible Debt (2007 Junior Debt). Total conversions for fiscal 2018 were for a principal amount of \$32.5 million for which we settled the principal amount in cash and issued 0.5 million shares of



our common stock in respect of the conversion value in excess of the principal amount for the conversions occurring prior to the call notice and \$41.0 million in cash for the conversion value in excess of the principal amount for the conversion requests received after the call notice. In June 2017, we exchanged in privately negotiated transactions \$111.3 million aggregate principal amount of our 2007 Junior Debt for (i) \$111.3 million principal amount of our 2017 Junior Subordinated Convertible Debt (2017 Junior Debt) with a market value of \$119.3 million plus (ii) the issuance of 3.2 million shares of our common stock with a value of \$254.6 million. In the case of the fiscal 2017 settlement, the principal value of \$431.3 million was settled in cash and we issued shares of our common stock in respect of the conversion value in excess of the principal amount plus a cash inducement fee of \$5.0 million.

Other loss, net in fiscal 2018 was \$5.8 million compared to other income, net of \$1.3 million in fiscal 2017 and other income, net of \$8.9 million in fiscal 2016. The primary reasons for the change in other income (loss) during fiscal 2018 compared to fiscal 2017 relates to impairments on available for sale investments partially offset by gains on foreign currency exchange rate fluctuations. The impairments on the available for sale investments are due to the anticipated liquidation of these investments in the first quarter of fiscal 2019 to fund our pending acquisition of Microsemi. The primary reason for the change

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in other income (loss) during fiscal 2017 compared to fiscal 2016 relate to the lower realized gains on the sale of marketable equity and debt securities.

### Provision for Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate of 65.4% in fiscal 2018, a 90.0% benefit in fiscal 2017, and a 15.2% benefit in fiscal 2016. Excluding certain tax events described below, our effective tax rates were lower than statutory rates in the U.S. primarily due to our mix of earnings in foreign jurisdictions with lower tax rates.

Our effective tax rate in fiscal 2018 includes \$644.7 million of tax expense estimated on a provisional basis, calculated under SAB 118, related to the one-time transition tax on certain foreign earnings, \$136.7 million of tax benefit estimated on a provisional basis related to the revaluation of our deferred tax assets and liabilities to the newly enacted U.S. statutory tax rate of 21.0%, and \$20.5 million of tax benefit estimated on a provisional basis related to the release of valuation allowances against our foreign tax credit carryforwards. These three adjustments increased (reduced) our effective tax rate by 87.4%, (18.5%), and (2.8%), respectively. Our effective tax rate in fiscal 2018 also includes a \$17.0 million tax benefit received from current year generated R&D credits, which reduced our effective tax rate by 2.3%. Our effective tax rate in 2018 also includes a \$27.2 million tax benefit for share-based compensation deductions, which reduced our effective tax rate by 3.7%. Our effective tax rate in 2018 also includes a \$11.3 million benefit related to audit closures and expirations of the statute of limitations on various tax reserves, which reduced our effective tax rate by 1.5%.

Our effective tax rate in fiscal 2017 included \$36.3 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves and \$7.9 million of expense related to intercompany prepaid tax amortization, which reduced our effective tax rate by 40.4% and increased our effective tax rate by 8.8%, respectively. Our effective tax rate in fiscal 2017 included a \$12.8 million benefit received from current year generated R&D credits, which reduced our effective tax rate by 14.3%. Our effective tax rate in fiscal 2017 also included a \$25.0 million benefit for share-based compensation deductions, which reduced our effective tax rate by 27.8%.

Our effective tax rate in fiscal 2016 included \$12.1 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves and \$15.5 million of benefits related to intercompany prepaid tax amortization, which reduced our effective rate by 4.3% and 5.5%, respectively. Our effective tax rate in fiscal 2016 also included a \$2.5 million benefit received from the reinstatement of the R&D credit and a \$13.5 million benefit received from current year generated R&D credits, which reduced our effective tax rate by 0.9% and 4.8%, respectively.

We are also subject to taxation in many other jurisdictions where 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 fiscal year ended March 31, 2018 was approximately 33% and our domestic statutory tax rate for fiscal 2017 was approximately 37%. Our non-U.S. blended statutory tax rates for fiscal 2018 and fiscal 2017 were much lower than this amount. The difference in rates applicable in foreign jurisdictions results from a number of factors, including lower statutory rates, historical loss carry-forwards, financing arrangements and other factors. Our effective tax rate has been, and will continue to be impacted by the geographical dispersion of our earnings and losses.

Our foreign tax rate differential benefit primarily relates to our operations in Thailand, Cayman 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 or 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 by Microchip's offshore technology company which was resident in the Cayman Islands at a 0% statutory tax rate. The tax rate differential in Ireland, Thailand, and Cayman plus the tax holiday in Thailand make up approximately 100% of the \$208.8 million benefit of foreign income taxed at a lower rate than the federal rate for fiscal 2018.

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 2005 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,

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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.

### Results of Discontinued Operations

Discontinued operations represent the mobile touch operations that we acquired as part of our acquisition of Atmel. On November 10, 2016, we completed the sale of the mobile touch assets to Solomon Systech (Limited) International, a Hong Kong based semiconductor company. The transaction included the sale of certain semiconductor products, equipment, customer list, backlog, patents, and a license to certain other intellectual property and patents related to Atmel's mobile touch product line. We also agreed to provide certain transition services to Solomon Systech. For financial statement purposes, the results of operations for this discontinued business have been segregated from those of the continuing operations and are presented in our consolidated financial statements as discontinued operations. Net loss from discontinued operations for the year ended March 31, 2017 was \$6.0 million, consisting of a pre-tax loss from operations of \$8.2 million and a pre-tax gain on sale of \$0.6 million.

### Liquidity and Capital Resources

We had \$2,196.6 million in cash, cash equivalents and short-term investments at March 31, 2018, an increase of \$786.3 million from the March 31, 2017 balance of cash, cash equivalents, short-term investments, and long term investments. The increase in cash, cash equivalents and short-term investments over this time period is primarily attributable to cash generated from operations of \$1,419.6 million, offset by dividend payments of \$337.5 million, \$206.8 million in capital payments and \$73.4 million on the settlement of a portion of our convertible debt.

Net cash provided from operating activities was \$1,419.6 million for fiscal 2018, \$1,059.5 million for fiscal 2017 and \$744.4 million for fiscal 2016. The increase in net cash provided from operating activities in fiscal 2018 compared to fiscal 2017 was primarily due to higher net sales as well as operating cash flows resulting from synergies realized from our process efficiencies and restructuring efforts related to our acquisition of Atmel. The increase in net cash provided by operating activities in fiscal 2017 compared to fiscal 2016 was primarily due to operating cash flows resulting from our acquisitions of Atmel and Micrel and operating synergies from our process efficiency and restructuring efforts.

Net cash used in investing activities was \$1,011.7 million for fiscal 2018 compared to \$2,838.0 million for fiscal 2017 and net cash provided by investing activities of \$800.4 million in fiscal 2016. Fiscal 2018 net investing cash flows primarily result from the net increase in investments of \$808.1 million due to cash from operations as well as capital purchases. Fiscal 2017 and fiscal 2016 investing cash flows include net cash and cash equivalents used to finance acquisitions of \$2,747.5 million and \$361.9 million, respectively. Excluding cash flows used in acquisitions, net investing activities resulted in a use of \$90.5 million in fiscal 2017 and net cash provided of \$1,162.3 million in fiscal 2016, and represented primarily the net change in our investments, capital purchases and sale of assets.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were \$206.8 million in fiscal 2018, \$75.3 million in fiscal 2017 and \$97.9 million in fiscal 2016. Capital expenditures are primarily for the expansion of production capacity, the addition of research and development equipment and new office buildings. Capital expenditures in fiscal 2017 were relatively less than we have experienced in recent years as we delayed certain purchases until we had finalized and developed plans following our acquisition of Atmel regarding technology platforms and other manufacturing activities. We currently intend to spend approximately \$225.0 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 \$415.3 million for fiscal 2018 compared to net cash provided from financing activities of \$595.5 million for fiscal 2017 and net cash used in financing activities of \$59.9 million for fiscal 2016. Fiscal 2018 financing cash outflows were primarily the result of dividend payments and payments on the settlement of our convertible debt. Fiscal 2017 cash flows were favorably impacted by the net proceeds of debt issued that year. Significant transactions affecting our net financing cash flows include:

• In fiscal 2017, we issued \$2,645.0 million of debt, of which \$2,118.7 million was used to settle debt and reduce borrowings on our credit facility.

• In fiscal 2016, we repurchased shares of our common stock for \$363.8 million, which was primarily funded with borrowings under our credit facility.

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In fiscal 2018, fiscal 2017 and fiscal 2016, we paid cash dividends to our stockholders of \$337.5 million, \$315.4 million, and \$291.1 million, respectively. The amount of dividends paid has increased due to an increase in the amount of dividends declared per share and in the number of shares outstanding.

On May 18, 2018, we entered into an amended and restated credit agreement which provides for a revolving loan facility in an aggregate principal amount of approximately \$3.8 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 revolving loan facility consists of approximately \$244.3 million of revolving loan commitments (the "2020 Revolving Loans") that terminate on February 4, 2020 (the "2020 Maturity Date") and approximately \$3.6 billion of revolving loan commitments (the "2023 Revolving Loans" and, together with the 2020 Revolving Loans, the "Revolving Loans") that terminate on May 18, 2023 (the "2023 Maturity Date"). The Revolving Loans bear interest, at our option, at (a) in the case of 2020 Revolving Loans, the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate plus a spread of 1.25% to 2.25%, and (b) in the case of 2023 Revolving Loans, the base rate plus a spread of 0.00% to 1.00% or an adjusted LIBOR rate plus a spread of 1.00% to 2.00%, in each case, with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period.

In June 2017, in connection with the settlement of \$111.3 million of our convertible debt, we amended our credit agreement to (i) extend the time period during which we are permitted to repurchase, redeem or exchange our 2007 junior debt and (ii) amend the maximum total leverage ratio covenant to extend the time period for permitted refinancings or exchanges of the 2007 junior debt that may be excluded from the calculation of the ratio, subject to certain conditions.

In February 2017, we amended our credit agreement to, among other things, increase certain covenant compliance ratios. The February 2017 amendment included a new collateral agreement that secures our borrowings with all assets of our guarantor subsidiaries with the exception of real property. Proceeds of loans made under our credit agreement may be used for working capital and general corporate purposes. At March 31, 2018 and 2017, we had no borrowings outstanding under the credit facility. See Note 11 of the notes to consolidated financial statements for more information regarding our credit agreement.

The enactment of the recent U.S tax reform Act in December 2017 imposes 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 non-U.S. assets to the U.S. will no longer be subject to U.S. federal taxation. As a result of the Act, we recognized a one-time transition tax expense of \$644.7 million on accumulated unrepatriated foreign earnings. This value is identified as provisional in our consolidated financial statements for the period ended March 31, 2018, and is subject to future measurement period adjustments in accordance with SEC staff issued Staff Accounting Bulletin ("SAB") 118. We intend to elect to pay this tax over a period of eight years, with 8% of the transition tax paid each year for fiscal 2019 through fiscal 2023, and 15%, 20%, and 25%, respectively, to be paid during fiscal 2024, fiscal 2025, and fiscal 2026.

In February 2016, we terminated our ten-year fixed-to-floating interest rate swap agreements which were related to a portion of our fixed-rate 1.625% 2015 senior subordinated convertible debt. The interest rate swap agreements were designated as fair value hedges. We paid variable interest equal to the three-month LIBOR minus 53.6 basis points and we received a fixed interest rate of 1.625%. Upon termination, the contracts were in an asset position, resulting in cash receipts of approximately \$25.7 million, which included \$3.7 million of accrued interest. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statement of cash flows.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations has had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency

rates in countries where we conduct operations will not adversely affect our operating results in the future. At March 31, 2018, we had no foreign currency forward contracts outstanding.

On April 4, 2016, we completed our acquisition of Atmel. Under the terms of the merger agreement executed on January 19, 2016, Atmel stockholders received \$8.15 per share consisting of \$7.00 per share in cash and \$1.15 per share in shares of Microchip common stock. We financed the purchase price of our Atmel acquisition using approximately \$2.04 billion of cash held by certain of our foreign subsidiaries, approximately \$0.94 billion from additional borrowings under our credit agreement and approximately \$486.1 million through the issuance of an aggregate of 10.1 million shares of our common stock. The acquisition price represented a total equity value of approximately \$3.47 billion, and a total enterprise value of approximately \$3.44 billion, after excluding Atmel's cash and investments net of debt on its balance sheet of approximately \$39.3 million. The acquisition was structured in a manner that enabled us to utilize a substantial portion of the cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries in a tax efficient manner. Although we

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believe our determinations with respect to the tax consequences of the acquisition are reasonable, we are regularly audited by the IRS and may be audited by other taxing authorities, and there can be no assurance as to the outcome of any such audit.

On August 3, 2015, we acquired Micrel for \$14.00 per share and paid an aggregate of approximately \$430.0 million in cash and issued an aggregate of 8.6 million shares of our common stock to Micrel shareholders. We financed the cash portion of the purchase price with amounts borrowed under our credit agreement.

On March 1, 2018, in connection with our execution of the Merger Agreement, we entered into a Commitment Letter with JPMorgan, pursuant to which JPMorgan committed to provide to us, among other things, (1) a senior secured term loan facility in an aggregate principal amount of up to \$5.0 billion and (2) a 364-day secured bridge facility in an aggregate principal amount of up to \$625.0 million, in each case, subject to the execution of definitive documentation and customary closing conditions. JPMorgan's commitments in respect of the Term Loan Facility will be reduced in the event we raise certain other debt or equity financing.

We estimate that the total amount of funds necessary to complete the acquisition of Microsemi and the other transactions contemplated by the Merger Agreement will be approximately \$10.15 billion to:

- make payments to Microsemi's stockholders of the amounts due to them under the Merger Agreement;
- make payments in respect of Microsemi's outstanding equity-based awards pursuant to the Merger Agreement;
- refinance or otherwise discharge outstanding indebtedness of Microsemi that is required to be refinanced or discharged pursuant to the Merger Agreement, including, without limitation, the termination of commitments and the refinancing of indebtedness under Microsemi's existing credit agreement, and the optional redemption of Microsemi's 9.125% Senior Notes due 2023; and

- pay related fees, expenses and taxes in connection with the foregoing and consummation of the Merger.

We expect to finance the foregoing through a combination of:

- the incurrence of loans under our new term loan facility or other debt financing;

- revolving loans under our amended and restated credit agreement; and

- Microchip's and Microsemi's cash and cash equivalents on hand at closing.

As of March 31 2018, Microchip and Microsemi had combined cash, cash equivalents and short-term investments of approximately \$2,419.8 million.

In May 2015, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock in the open market or in privately negotiated transactions. In January 2016, our Board of Directors authorized an increase in the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the current authorization. As of March 31, 2016, we had repurchased 8.6 million shares under this authorization for approximately \$363.8 million. There were no repurchases of common stock during fiscal 2018 and fiscal 2017. There is no expiration date associated with this repurchase program.

As of March 31, 2018, we held approximately 18.2 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. The initial quarterly dividend of \$0.02 per share was paid on December 6, 2003 in the amount of \$4.1 million. To date, our cumulative dividend payments have totaled approximately \$3.5 billion. Cash dividends paid per share were \$1.449, \$1.441 and \$1.433 during fiscal 2018, fiscal 2017 and fiscal 2016, respectively. Total dividend payments amounted to \$337.5 million, \$315.4 million, \$291.1 million during fiscal 2018, fiscal 2017 and fiscal 2016, respectively. On May 8, 2018, we declared a quarterly cash dividend of \$0.3635 per share, which will be paid on June 4, 2018, to stockholders of record on May 21, 2018 and the total amount of such dividend is expected to be approximately \$85.6 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.

As discussed above, we plan to finance our pending acquisition of Microsemi through a combination of incurrence of loans under a new term loan facility, revolving loans under Microchip's amended and restated credit agreement, the issuance of the

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senior secured debt; and Microchip's and Microsemi's cash and cash equivalents on hand at closing. Other than such financing required to fund our Microsemi acquisition, we believe that our existing sources of liquidity combined with cash generated from operations and borrowings under our credit agreement 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 credit agreement 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. There can be no assurance that such financing will be available on acceptable terms, 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 at March 31, 2018, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at March 31, 2018 (dollars in millions):

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations <sup>(1)</sup>	\$69.9	\$26.0	\$32.0	\$11.9	\$—
Capital purchase obligations <sup>(2)</sup>	144.4	144.4	—	—	—
Other purchase obligations and commitments <sup>(3)</sup>	101.6	101.0	0.6	—	—
2017 senior debt <sup>(4)</sup>	2,372.8	33.6	67.3	67.3	2,204.6
2015 senior debt <sup>(5)</sup>	1,921.3	28.0	56.1	56.1	1,781.1
2017 junior debt <sup>(6)</sup>	979.7	15.4	30.9	30.9	902.5
Pension obligations <sup>(7)</sup>	16.8	0.9	2.1	3.2	10.6
Transition tax obligation <sup>(8)</sup>	336.1	26.9	53.8	53.8	201.6
Total contractual obligations <sup>(9)</sup>	\$5,942.6	\$376.2	\$242.8	\$223.2	\$5,100.4

<sup>(1)</sup> Operating lease obligations include \$23.3 million of future lease payments which is recorded as a liability on the balance sheet as of March 31, 2018. This obligation is due under an operating lease from the acquisition of Atmel for a building in San Jose, California.

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 March 31, 2018, as we have not yet received the related goods or taken title to the property.

Other purchase obligations and commitments include payments due under various types of licenses and outstanding purchase commitments with our wafer foundries of approximately \$101.6 million for delivery of wafers in fiscal 2019.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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.

<sup>(6)</sup> 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.

<sup>(7)</sup>

For purposes of this table pension obligations due in more than 5 years represent the expected pension payments from 2023 through 2027. It excludes pension obligations subsequent to 2027.

(8) 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 recent U.S. tax reform of which we expect to result in future cash payments of approximately \$336.1 million. This one-time transition tax is identified as provisional in our consolidated financial statements for the period ended March 31, 2018, and is subject to future measurement period adjustments in accordance with SAB 118. We intend to elect to pay this tax over a period of eight years, with 8% of the transition tax paid each

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year for fiscal 2019 through fiscal 2023, and 15%, 20%, and 25%, respectively, to be paid during fiscal 2024, 2025, and 2026.

Total contractual obligations do not include contractual obligations recorded on our balance sheet as current<sup>(9)</sup> liabilities, or certain purchase obligations as discussed below. The contractual obligations also 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 March 31, 2018, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K. In the ordinary course of business, we may provide 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.

### Recently Issued Accounting Pronouncements

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

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our 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 our investment guidelines and market conditions. Our investment portfolio, consisting of fixed income securities, money market funds, cash deposits, and marketable securities that we hold on an available-for-sale basis, was \$2,196.6 million as of March 31, 2018 compared to \$1,410.3 million as of March 31, 2017. In fiscal 2018, an other-than-temporary-impairment was recognized as we intend to sell our investments in the first quarter of fiscal 2019 to fund our pending acquisition of Microsemi. Our available-for-sale debt securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates as of March 31, 2018. We have aggregated our available-for-sale securities by contractual maturity date for presentation purposes since they are all very similar in nature (dollars in millions):

Financial instruments maturing during the fiscal year  
ended March 31,

	2019	2020	2021	2022	2023	Thereafter
Available-for-sale securities	\$246.5	\$243.3	\$802.7	\$ —	\$ —	\$ —
Weighted-average yield rate	1.70 %	1.93 %	1.91 %	—%	—%	— %

See Note 1 to our Consolidated Financial Statements for additional information on our investments.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the 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 are 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.

Management Report on Internal Control Over Financial Reporting

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

Management assessed our internal control over financial reporting as of March 31, 2018, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

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

Ernst & Young LLP, an independent registered public accounting firm, who audited our consolidated financial statements included in this Form 10-K has issued an attestation report on our internal control over financial reporting as of March 31, 2018, which is included on page F-2.

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Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2018, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

J. Eric Bjornholt, our Chief Financial Officer, Mitch Little, our Vice President, Worldwide Sales and Applications, Steve Drehobl, our Vice President, MCU8 and Technology Development Division, and Rich Simoncic, our Vice President, Analog Power and Interface Division, have entered into trading plans as contemplated by Rule 10b-5-1 under the Exchange Act and periodic sales of our common stock have occurred and are expected to occur under such plans.

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



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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information on the members of our Board of Directors is incorporated herein by reference to our proxy statement for our 2018 annual meeting of stockholders under the captions "The Board of Directors," and "Proposal One – Election of Directors."

Information on the composition of our audit committee and the members of our audit committee, including information on our audit committee financial experts, is incorporated by reference to our proxy statement for our 2018 annual meeting of stockholders under the caption "The Board of Directors – Committees of the Board of Directors – Audit Committee."

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

Information with respect to compliance with Section 16(a) of the Exchange Act, is incorporated herein by reference to our proxy statement for our 2018 annual meeting of stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

Information with respect to our code of ethics that applies to our directors, executive officers (including our principal executive officer and our principal financial and accounting officer) and employees is incorporated by reference to our proxy statement for our 2018 annual meeting of stockholders under the caption "Code of Business Conduct and Ethics." A copy of our Code of Business Conduct and Ethics is available on our website at the Investor Relations section under Mission Statement/Corporate Governance on [www.microchip.com](http://www.microchip.com).

Information regarding material changes, if any, to procedures by which security holders may recommend nominees to our Board of Directors is incorporated by reference to our proxy statement for the 2018 annual meeting of stockholders under the caption "Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2018 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals."

Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation" in our proxy statement for our 2018 annual meeting of stockholders.

Information with respect to director compensation is incorporated herein by reference to the information under the caption "The Board of Directors – Director Compensation" in our proxy statement for our 2018 annual meeting of stockholders.

Information with respect to compensation committee interlocks and insider participation in compensation decisions is incorporated herein by reference to the information under the caption "The Board of Directors – Compensation Committee Interlocks and Insider Participation" in our proxy statement for our 2018 annual meeting of stockholders.

Our Board compensation committee report on executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation – Compensation Committee Report on Executive Compensation" in our proxy statement for our 2018 annual meeting of stockholders.

Item SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

Information with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information under the caption "Executive Compensation – Equity Compensation Plan Information" in our proxy statement for our 2018 annual meeting of stockholders.

Information with respect to security ownership of certain beneficial owners, members of our Board of Directors and management is incorporated herein by reference to the information under the caption "Security Ownership of Principal Stockholders, Directors and Executive Officers" in our proxy statement for our 2018 annual meeting of stockholders.

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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item pursuant to Item 404 of Regulation S-K is incorporated by reference to the information under the caption "Certain Transactions" contained in our proxy statement for our 2018 annual meeting of stockholders.

The information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of our directors is incorporated by reference to the information under the caption "Meetings of the Board of Directors" contained in our proxy statement for our 2018 annual meeting of stockholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item related to principal accountant fees and services as well as related pre-approval policies is incorporated by reference to the information under the caption "Independent Registered Public Accounting Firm" contained in our proxy statement for our 2018 annual meeting of stockholders.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	Page No.
(1) Financial Statements:	
Report of Independent Registered Public Accounting Firm	F-1
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	F-2
Consolidated Balance Sheets as of March 31, 2018 and 2017	F-3
Consolidated Statements of Income for each of the three years in the period ended March 31, 2018	F-4
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2018	F-5
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2018	F-6
Consolidated Statements of Changes in Equity for each of the three years in the period ended March 31, 2018	F-8
Notes to Consolidated Financial Statements	F-10
(2) Financial Statement Schedules	None
(3) The Exhibits filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index beginning on page 62 hereof, which Exhibit Index is incorporated herein by this reference.	

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

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

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Item 16. Form 10-K Summary

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROCHIP TECHNOLOGY INCORPORATED  
(Registrant)

May 18, 2018 By: /s/ Steve Sanghi  
Steve Sanghi  
Chief Executive Officer and Chairman of the Board

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## POWER OF ATTORNEY

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

IN WITNESS WHEREOF, each of the undersigned has executed the foregoing power of attorney on this 18th day of May, 2018.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Signature	Title	Date
/s/ Steve Sanghi Steve Sanghi	Chief Executive Officer and Chairman of the Board	May 18, 2018
/s/ Matthew W. Chapman Matthew W. Chapman	Director	May 18, 2018
/s/ L.B. Day L.B. Day	Director	May 18, 2018
/s/ Esther L. Johnson Esther L. Johnson	Director	May 18, 2018
/s/ Wade F. Meyercord Wade F. Meyercord	Director	May 18, 2018
/s/ J. Eric Bjornholt	Vice President and Chief Financial Officer	

May 18,  
2018

J. Eric Bjornholt

(Principal Financial and Accounting Officer)

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EXHIBIT LIST

Exhibit Number	Exhibit Description	Incorporated by Reference			Included Herewith
		Form	File Number	Exhibit Filing Date	
2.1	<u>Agreement and Plan of Merger dated as of May 22, 2014 by and among Microchip Technology (Barbados) II Incorporated and ISSC Technologies Corp.</u>	10-K	000-21184	2.1	5/30/2014
2.2	<u>Tender Agreement dated May 22, 2014 between Microchip Technology (Barbados) II Incorporated and Directors, Certain Officers and Certain Shareholders of ISSC Technologies Corp.</u>	10-K	000-21184	2.2	5/30/2014
2.3	<u>Guaranty Concerning Merger Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated</u>	10-K	000-21184	2.3	5/30/2014
2.4	<u>Guaranty Concerning Tender Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated</u>	10-K	000-21184	2.4	5/30/2014
2.5	<u>Agreement and Plan of Merger dated as of February 9, 2014 by and among Microchip Technology Incorporated, Orchid Acquisition Corporation and Supertex, Inc.</u>	10-K	000-21184	2.5	5/30/2014
2.6	<u>Agreement and Plan of Merger dated as of May 1, 2012 by and among Microchip Technology Incorporated, Microchip Technology Management Co. and Standard Microsystems Corporation, including Form of Voting Agreement</u>	10-K	000-21184	2.2	5/30/2012
2.7	<u>Agreement and Plan of Merger dated as of May 7, 2015, by and among, Microchip Technology Incorporated, Micrel, Incorporated, Mambo Acquisition Corp. and Mambo Acquisition LLC</u>	8-K	000-21184	2.1	5/8/2015
2.8	<u>Agreement and Plan of Merger, dated as of January 19, 2016, by and among Microchip Technology, Atmel Corporation, and Hero Acquisition Corporation</u>	8-K	000-21184	2.1	1/19/2016
2.9	<u>Agreement and Plan of Merger, dated as of March 1, 2018, by and among Microchip Technology Incorporated, Microsemi Corporation, and Maple Acquisition Corporation</u>	8-K	000-21184	2.1	3/2/2018
3.1	<u>Restated Certificate of Incorporation of Registrant</u>	10-Q	000-21184	3.1	11/12/2002
3.2	<u>Amended and Restated By-Laws of Registrant, as amended through November 14, 2016</u>	8-K	000-21184	3.1	11/17/2016
4.1	<u>Indenture dated as of February 11, 2015 between Microchip Technology Incorporated and Wells Fargo Bank, N.A.</u>	8-K	000-21184	4.1	2/11/2015
4.2	<u>Indenture dated as of February 15, 2017 between Microchip Technology Incorporated and Wells Fargo Bank, National Association</u>	8-K	000-21184	4.1	2/15/2017



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## EXHIBIT LIST

Exhibit Number	Exhibit Description	Incorporated by Reference			Included Herewith
		Form	File Number	Exhibit Filing Date	
4.3	<u>Indenture dated as of February 15, 2017 between Microchip Technology Incorporated and Wells Fargo Bank, National Association</u>	8-K	000-21184	4.3	2/15/2017
10.1	<u>Augmenting Lender Supplement, dated as of November 10, 2017, among Microchip Technology Incorporated, the lender party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent</u>	8-K	000-21184	10.1	11/13/2017
10.2	<u>Master Increasing Lender Supplement, dated as of September 1, 2017, among Microchip Technology Incorporated, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</u>	8-K	000-21184	10.1	9/1/2017
10.3	<u>Master Increasing Lender Supplement dated as of March 19, 2015, by and among Microchip Technology Incorporated and the Increasing Lenders thereto</u>	10-K	000-21184	10.1	5/27/2015
10.4	<u>Amended and Restated Credit Agreement, dated May 18, 2018, by and among Microchip Technology Incorporated, the lenders from time to time party there to and JPMorgan Chase Bank, N.A., as administrative agent</u>	8-K	000-21184	10.1	5/18/2018
10.5	<u>Amendment No. 3, dated as of June 21, 2017, to Amended and Restated Credit Agreement, dated as of June 27, 2013, as amended and restated as of February 4, 2015</u>	8-K	000-21184	10.1	6/22/2017
10.6	<u>Amendment No. 2, dated as of February 8, 2017, to Amended and Restated Credit Agreement, dated as of June 27, 2013, as amended and restated as of February 4, 2015</u>	8-K	000-21184	10.1	2/8/2017
10.7	<u>Amendment No. 1, dated December 4, 2015, to Amended and Restated Credit Agreement, dated as of June 27, 2013, as amended and restated as of February 4, 2015</u>	8-K	000-21184	10.1	12/7/2015
10.8	<u>Amendment and Restatement Agreement dated as of February 4, 2015, to the Credit Agreement, dated as of June 27, 2013, by and among Microchip Technology Incorporated, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</u>	8-K	000-21184	10.1	2/4/2015
10.9	<u>Pledge and Security Agreement, dated as of February 8, 2017, by and among Microchip Technology Incorporated, the other grantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent</u>	8-K	000-21184	10.2	2/8/2017
10.10	<u>Commitment Letter dated March 1, 2018, between Microchip Technology Incorporated and JPMorgan Chase Bank, N.A.</u>	8-K	000-21184	10.1	3/2/2018
10.11		S-1	33-57960	10.1	2/5/1993

Form of Indemnification Agreement between  
Registrant and its directors and certain of its officers  
[Paper filing not on SEC website.]

10.12	<u>Microchip Technology Incorporated 2012 Inducement Award Plan</u>	S-8	333-183074	4.8	8/3/2012
10.13*	<u>2004 Equity Incentive Plan as amended and restated on May 16, 2017</u>	8-K	000-21184	10.1	8/25/2017

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EXHIBIT LIST

Exhibit Number	Exhibit Description	Incorporated by Reference			Included Herewith
		Form	File Number	Exhibit Filing Date	
10.14*	<u>Form of Notice of Grant of Restricted Stock Units (officer) for 2004 Equity Incentive Plan</u>	S-8	333-192273	10.2	11/12/2013
10.15	<u>Form of Notice of Grant of Restricted Stock Units (non-officer) for 2004 Equity Incentive Plan</u>	S-8	333-192273	10.3	11/12/2013
10.16*	<u>Form of Notice of Grant for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement)</u>	S-8	333-119939	4.5	10/25/2004
10.17*	<u>Form of Notice of Grant of Restricted Stock Units for 2004 Equity Incentive Plan (including Exhibit A Restricted Stock Units Agreement)</u>	10-K	000-21184	10.6	5/31/2006
10.18*	<u>Restricted Stock Units Agreement (Domestic) for 2004 Equity Incentive Plan</u>	10-Q	000-21184	10.3	11/7/2007
10.19	<u>Restricted Stock Units Agreement (Foreign) for 2004 Equity Incentive Plan</u>	10-Q	000-21184	10.4	11/7/2007
10.20*	<u>Form of Global RSU Agreement for 2004 Equity Incentive Plan (including Notice of Grant of Restricted Stock Units)</u>	8-K	000-21184	10.1	9/27/2010
10.21*	<u>Microchip Technology Incorporated 2001 Employee Stock Purchase Plan as amended through March 1, 2012</u>	10-Q	000-21184	10.1	2/6/2012
10.22	<u>Microchip Technology Incorporated International Employee Stock Purchase Plan as amended through May 1, 2015</u>	S-8	000-21184	4.3	11/8/2017
10.23*	<u>Executive Management Incentive Compensation Plan as amended on May 16, 2016</u>	8-K	000-21184	10.1	8/18/2016
10.24*	<u>Discretionary Executive Management Incentive Compensation Plan</u>	8-K	000-21184	10.3	8/24/2006
10.25	<u>Management Incentive Compensation Plan as amended by the Board of Directors on May 17, 2013</u>	10-K	000-21184	10.21	5/30/2013
10.26*	<u>Microchip Technology Incorporated Supplemental Retirement Plan</u>	S-8	333-101696	4.1.1	12/6/2002
10.27*	<u>Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated January 1, 1997</u>	S-8	333-101696	4.1.3	12/6/2002
10.28*	<u>Amendment dated December 9, 1999 to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan</u>	S-8	333-101696	4.1.4	12/6/2002
10.29*	<u>February 3, 2003 Amendment to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan</u>	10-K	000-21184	10.28	6/5/2003
10.30*	<u>Amendments to Supplemental Retirement Plan</u>	10-Q	000-21184	10.1	2/9/2006
10.31*	<u>Amended and Restated Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated October 8, 2008, as amended December 15, 2008</u>	10-K	000-21184	10.28	5/24/2016
10.32*	<u>Change of Control Severance Agreement</u>	8-K	000-21184	10.1	12/18/2008



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EXHIBIT LIST

Exhibit Number	Exhibit Description	Incorporated by Reference			Included Herewith
		Form	File Number	Exhibit Filing Date	
10.33*	<u>Change of Control Severance Agreement Development Agreement dated as of August 29, 1997</u>	8-K	000-21184	10.2 12/18/2008	
10.34	<u>by and between Registrant and the City of Chandler, Arizona</u>	10-Q	000-21184	10.1 2/13/1998	
10.35	<u>Addendum to Development Agreement by and between Registrant and the City of Tempe, Arizona, dated May 11, 2000</u>	10-K	000-21184	10.14 5/15/2001	
10.36	<u>Development Agreement dated as of July 17, 1997 by and between Registrant and the City of Tempe, Arizona</u>	10-Q	000-21184	10.2 2/13/1998	
10.37	<u>Amended Strategic Investment Program Contract dated as of June 8, 2009 between, Multnomah County, Oregon, City of Gresham, Oregon and Microchip Technology Incorporated</u>	8-K	000-21184	10.1 6/11/2009	
21.1	<u>Subsidiaries of Registrant</u>				X
23.1	<u>Consent of Independent Registered Public Accounting Firm</u>				X
24.1	<u>Power of Attorney included on Page 61 of this Form 10-K</u>				X
31.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)</u>				X
31.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)</u>				X
32**	<u>Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				X

\*Compensation plans or arrangements in which directors or executive officers are eligible to participate.

\*\*Furnished herewith.

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Annual Report on Form 10-K

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

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CONSOLIDATED FINANCIAL STATEMENTS

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YEAR ENDED MARCH 31, 2018

MICROCHIP TECHNOLOGY INCORPORATED  
AND SUBSIDIARIES

CHANDLER, ARIZONA





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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Microchip Technology Incorporated (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 18, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.

Phoenix, Arizona

May 18, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Opinion on Internal Control over Financial Reporting

We have audited Microchip Technology Incorporated's (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Microchip Technology Incorporated maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes and our report dated May 18, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

a material effect on the financial statements.

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

/s/ Ernst & Young LLP

Phoenix, Arizona

May 18, 2018

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## Item 1. Financial Statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

## ASSETS

	March 31,	
	2018	2017
Cash and cash equivalents	\$901.3	\$908.7
Short-term investments	1,295.3	394.1
Accounts receivable, net	563.7	478.4
Inventories	476.2	417.2
Prepaid expenses	63.9	41.3
Assets held for sale	—	6.4
Other current assets	55.9	58.9
Total current assets	3,356.3	2,305.0
Property, plant and equipment, net	767.9	683.3
Long-term investments	—	107.5
Goodwill	2,299.0	2,299.0
Intangible assets, net	1,662.0	2,148.1
Long-term deferred tax assets	100.2	68.9
Other assets	71.8	75.1
Total assets	\$8,257.2	\$7,686.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$144.1	\$149.2
Accrued liabilities	229.6	212.5
Deferred income on shipments to distributors	333.8	292.8
Current portion of long-term debt	1,309.9	50.0
Total current liabilities	2,017.4	704.5
Long-term debt	1,758.4	2,900.5
Long-term income tax payable	754.9	184.9
Long-term deferred tax liability	205.8	409.1
Other long-term liabilities	240.9	217.2
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value; authorized 450,000,000 shares; 253,232,909 shares issued and 235,027,767 shares outstanding at March 31, 2018; 249,463,733 shares issued and 229,093,658 shares outstanding at March 31, 2017	0.2	0.2
Additional paid-in capital	2,562.5	2,537.4
Common stock held in treasury: 18,205,142 shares at March 31, 2018; 20,370,075 shares at March 31, 2017	(662.6 )	(731.9 )
Accumulated other comprehensive loss	(17.6 )	(14.4 )
Retained earnings	1,397.3	1,479.4
Total stockholders' equity	3,279.8	3,270.7
Total liabilities and stockholders' equity	\$8,257.2	\$7,686.9
See accompanying notes to consolidated financial statements		

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

	Year ended March 31,		
	2018	2017	2016
Net sales	\$3,980.8	\$3,407.8	\$2,173.3
Cost of sales (1)	1,560.1	1,650.6	967.8
Gross profit	2,420.7	1,757.2	1,205.5
Research and development (1)	529.3	545.3	372.6
Selling, general and administrative (1)	452.1	499.8	301.7
Amortization of acquired intangible assets	485.5	337.7	174.9
Special charges and other, net	17.5	98.6	4.0
Operating expenses	1,484.4	1,481.4	853.2
Operating income	936.3	275.8	352.3
Losses on equity method investments	(0.2)	(0.2)	(0.3)
Other income (expense):			
Interest income	22.0	3.1	24.4
Interest expense	(199.0)	(146.3)	(104.0)
Loss on settlement of convertible debt	(16.0)	(43.9)	—
Other (loss) income, net	(5.8)	1.3	8.9
Income before income taxes	737.3	89.8	281.3
Income tax provision (benefit)	481.9	(80.8)	(42.6)
Net income from continuing operations	255.4	170.6	323.9
Discontinued operations:			
Loss from discontinued operations	—	(7.6)	—
Income tax benefit	—	(1.6)	—
Net loss from discontinued operations	—	(6.0)	—
Net Income	255.4	164.6	323.9
Less: Net loss attributable to noncontrolling interests	—	—	0.2
Net income attributable to Microchip Technology	\$255.4	\$164.6	\$324.1
Basic net income per common share attributable to Microchip Technology stockholders			
Net income from continuing operations	\$1.10	\$0.79	\$1.59
Net loss from discontinued operations	\$—	\$(0.03)	\$—
Net income attributable to Microchip Technology	\$1.10	\$0.76	\$1.59
Diluted net income per common share attributable to Microchip Technology stockholders			
Net income from continuing operations	\$1.03	\$0.73	\$1.49
Net loss from discontinued operations	\$—	\$(0.02)	\$—
Net income attributable to Microchip Technology	\$1.03	\$0.71	\$1.49
Dividends declared per common share	\$1.449	\$1.441	\$1.433
Basic common shares outstanding	232.9	217.2	203.4
Diluted common shares outstanding	248.9	234.8	217.4

(1) Includes share-based compensation expense as follows:

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Cost of sales	\$13.8	\$18.7	\$8.3
Research and development	42.5	46.8	32.0
Selling, general and administrative	36.9	62.6	31.1

See accompanying notes to consolidated financial statements

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

	Year Ended March 31,		
	2018	2017	2016
Net income	\$255.4	\$164.6	\$323.9
Less: Net loss attributable to noncontrolling interests	—	—	0.2
Net income attributable to Microchip Technology	255.4	164.6	324.1
Components of other comprehensive (loss) income:			
Available-for-sale securities:			
Unrealized holding losses, net of tax effect	(13.6 )	(1.5 )	(3.2 )
Reclassification of realized transactions, net of tax effect	15.2	1.5	(10.9 )
Defined benefit plans:			
Actuarial losses related to defined benefit pension plans, net of tax benefit of \$2.4, \$2.2, and \$0	(5.6 )	(5.3 )	—
Reclassification of realized transactions, net of tax effect	0.8	—	—
Change in net foreign currency translation adjustment	—	(5.7 )	—
Other comprehensive loss, net of tax effect	(3.2 )	(11.0 )	(14.1 )
Less: Other comprehensive loss attributable to noncontrolling interests	—	—	—
Other comprehensive loss attributable to Microchip Technology	(3.2 )	(11.0 )	(14.1 )
Comprehensive income	252.2	153.6	309.8
Less: Comprehensive loss attributable to noncontrolling interests	—	—	0.2
Comprehensive income attributable to Microchip Technology	\$252.2	\$153.6	\$310.0

See accompanying notes to consolidated financial statements

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

	Year ended March 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$255.4	\$164.6	\$323.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	615.9	469.2	283.2
Deferred income taxes	51.2	(126.9)	(60.4)
Share-based compensation expense related to equity incentive plans	93.2	128.1	71.4
Excess tax benefit from share-based compensation	—	—	(0.8)
Loss on settlement of convertible debt	16.0	43.9	—
Amortization of debt discount on convertible debt	106.1	56.1	48.0
Amortization of debt issuance costs	6.6	4.5	4.0
Losses on equity method investments	0.2	0.2	0.3
Gains on sale of assets	(5.9)	(0.1)	(1.0)
Loss on write-down of fixed assets	0.1	2.6	—
Impairment of intangible assets	0.5	11.9	0.6
Realized losses (gain) on available-for-sale investments	—	0.1	(13.7)
Realized gain on equity method investment	—	(0.4)	(2.2)
Impairment of available-for-sale investment	15.5	1.4	4.0
Amortization of premium on available-for-sale investments	0.3	—	9.0
Changes in operating assets and liabilities, excluding impact of acquisitions:			
Increase in accounts receivable	(85.3)	(46.8)	(2.1)
(Increase) decrease in inventories	(59.2)	223.7	48.2
Increase in deferred income on shipments to distributors	41.0	109.4	17.0
Decrease in accounts payable and accrued liabilities	(13.9)	(14.8)	(26.4)
Change in other assets and liabilities	14.0	25.7	0.1
Change in income tax payable	367.9	(2.2)	41.3
Operating cash flows related to discontinued operations	—	9.3	—
Net cash provided by operating activities	1,419.6	1,059.5	744.4
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,594.8)	(500.3)	(1,573.9)
Maturities of available-for-sale investments	786.7	0.4	1,322.7
Sales of available-for-sale investments	—	470.2	1,501.5
Sale of equity method investment	—	1.7	2.7
Acquisition of Atmel, net of cash acquired	—	(2,747.5)	—
Acquisition of Micrel, net of cash acquired	—	—	(343.9)
Purchase of additional controlling interest in ISSC	—	—	(18.0)
Investments in other assets	(7.1)	(10.2)	(7.1)
Proceeds from sale of assets	10.3	23.0	14.3
Capital expenditures	(206.8)	(75.3)	(97.9)
Net cash (used in) provided by investing activities	(1,011.7)	(2,838.0)	800.4
Cash flows from financing activities:			
Payments on settlement of convertible debt	(73.4)	(436.2)	—
Proceeds from issuance of 2017 senior debt	—	2,070.0	—
Proceeds from issuance of 2017 junior debt	—	575.0	—
Repayments of revolving loan under credit facility	(187.0)	(2,781.0)	(1,614.4)

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Proceeds from borrowings on revolving loan under credit facility	187.0	1,537.0	2,204.5
Deferred financing costs	(1.2 )	(36.9 )	(2.2 )
Payment of cash dividends	(337.5 )	(315.4 )	(291.1 )
Repurchase of common stock	—	—	(363.8 )
Proceeds from sale of common stock	42.0	42.2	28.7
Tax payments related to shares withheld for vested restricted stock units	(44.4 )	(58.4 )	(21.7 )
Capital lease payments	(0.8 )	(0.8 )	(0.6 )
Excess tax benefit from share-based compensation	—	—	0.7
Net cash (used in) provided by financing activities	(415.3 )	595.5	(59.9 )

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	Year ended March 31,		
	2018	2017	2016
Effect of foreign exchange rate changes on cash and cash equivalents	—	(1.0 )	—
Net (decrease) increase in cash and cash equivalents	(7.4 )	(1,184.0 )	1,484.9
Cash and cash equivalents at beginning of period	908.7	2,092.7	607.8
Cash and cash equivalents at end of period	\$901.3	\$908.7	\$2,092.7

## Schedule of significant non-cash financing activity:

<sup>(1)</sup> During the year ended March 31, 2018, the Company issued \$111.3 million principal amount of 2017 Junior Notes and 3.2 million shares of common stock in exchange for \$111.3 million principal amount of 2007 Junior Notes. Refer to Note 11 Debt and Credit Facility for further discussion.

See accompanying notes to consolidated financial statements

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

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income		Retained Earnings	Net Microchip Technology Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at March 31, 2015	218.8	\$ 999.7	16.8	\$(515.7)	\$ 11.1	\$ 1,549.6	\$ 2,044.7	\$ 16.3	\$ 2,061.0	
Net income (loss)	—	—	—	—	—	324.1	324.1	(0.2 )	323.9	
Other comprehensive loss	—	—	—	—	(14.1 )	—	(14.1 )	—	(14.1 )	
Purchase of additional shares from noncontrolling interest	—	(1.6 )	—	—	(0.4 )	—	(2.0 )	(16.1 )	(18.1 )	
Issuance of common stock - Micrel acquisition	8.6	369.1	—	—	—	—	369.1	—	369.1	
Non-cash consideration, exchange of employee stock awards - Micrel acquisition	—	4.1	—	—	—	—	4.1	—	4.1	
Purchase of treasury stock	—	—	8.6	(363.8 )	—	—	(363.8 )	—	(363.8 )	
Proceeds from sales of common stock through employee equity incentive plans	2.5	28.7	—	—	—	—	28.7	—	28.7	
Restricted stock unit and stock appreciation right withholdings	(0.5 )	(21.7 )	—	—	—	—	(21.7 )	—	(21.7 )	
Treasury stock used for new issuances	(2.0 )	(59.4 )	(2.0 )	59.4	—	—	—	—	—	
Tax benefit from equity incentive plans	—	(0.6 )	—	—	—	—	(0.6 )	—	(0.6 )	
Share-based compensation	—	73.6	—	—	—	—	73.6	—	73.6	
Cash dividend	—	—	—	—	—	(291.1 )	(291.1 )	—	(291.1 )	
Balance at March 31, 2016	227.4	1,391.9	23.4	(820.1 )	(3.4 )	1,582.6	2,151.0	—	2,151.0	
Net income	—	—	—	—	—	164.6	164.6	—	164.6	
Other comprehensive loss	—	—	—	—	(11.0 )	—	(11.0 )	—	(11.0 )	
Issuance of common stock - Atmel acquisition	10.1	486.2	—	—	—	—	486.2	—	486.2	
Non-cash consideration, exchange of employee	—	7.5	—	—	—	—	7.5	—	7.5	

stock awards - Atmel acquisition									
Proceeds from sales of common stock through employee equity incentive plans	4.0	42.2	—	—	—	—	42.2	—	42.2
Restricted stock unit and stock appreciation right withholdings	(1.0 )	(58.4 )	—	—	—	—	(58.4 )	—	(58.4 )
Adoption of ASU 2016-09, cumulative adjustment	—	2.0	—	—	—	47.6	49.6	—	49.6
Treasury stock used for new issuances	(3.0 )	(88.2 )	(3.0 )	88.2	—	—	—	—	—
Share-based compensation	—	127.3	—	—	—	—	127.3	—	127.3
Shares issued to settle convertible debt	12.0	862.7	—	—	—	—	862.7	—	862.7

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	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Net Microchip Technology Stockholders Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Settlement of convertible debt	—	(850.8 )	—	—	—	—	(850.8 )	—	(850.8 )
Convertible Debt - issuance of 2017 senior and junior debt	—	615.2	—	—	—	—	615.2	—	615.2
Cash dividend	—	—	—	—	—	(315.4 )	(315.4 )	—	(315.4 )
Balance at March 31, 2017	249.5	2,537.6	20.4	(731.9 )	(14.4 )	1,479.4	3,270.7	—	3,270.7
Net income	—	—	—	—	—	255.4	255.4	—	255.4
Other comprehensive loss	—	—	—	—	(3.2 )	—	(3.2 )	—	(3.2 )
Proceeds from sales of common stock through employee equity incentive plans	2.7	42.0	—	—	—	—	42.0	—	42.0
Restricted stock unit and stock appreciation right withholdings	(0.5 )	(44.4 )	—	—	—	—	(44.4 )	—	(44.4 )
Treasury stock used for new issuances	(2.2 )	(69.3 )	(2.2 )	69.3	—	—	—	—	—
Share-based compensation	—	93.1	—	—	—	—	93.1	—	93.1
Shares issued to settle convertible debt	3.7	298.5	—	—	—	—	298.5	—	298.5
Settlement of convertible debt	—	(337.7 )	—	—	—	—	(337.7 )	—	(337.7 )
Convertible Debt - exchange of 2017 junior debt	—	42.9	—	—	—	—	42.9	—	42.9
Cash dividend	—	—	—	—	—	(337.5 )	(337.5 )	—	(337.5 )
Balance at March 31, 2018	253.2	\$2,562.7	18.2	\$(662.6)	\$ (17.6 )	\$1,397.3	\$3,279.8	\$	—\$3,279.8

See accompanying notes to consolidated financial statements

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MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Business

Microchip Technology Incorporated ("Microchip" or the "Company") develops, manufactures and sells specialized semiconductor products used by its customers for a wide variety of embedded control applications. Microchip's product portfolio comprises general purpose and specialized 8-bit, 16-bit, and 32-bit microcontrollers, a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, radio frequency (RF), timing, safety, security, wired connectivity and wireless connectivity devices, as well as serial Electrically Erasable Programmable Read Only Memory (EEPROMs), Serial Flash memories, Parallel Flash memories and serial Static Random Access Memory (SRAM) memories. Microchip also licenses Flash-IP solutions that are incorporated in a broad range of products.

Pending Acquisition

On March 1, 2018, the Company entered into a definitive agreement to acquire Microsemi Corporation for \$68.78 per share in cash. The Company plans to finance the transaction which is expected to close in late May/early June 2018 with a combination of existing cash balances, its line of credit and new debt. The acquisition price represents a total equity value of approximately \$8.35 billion, and a total enterprise value of about \$10.15 billion, after accounting for Microsemi's cash and investments, net of debt, on its balance sheet at December 31, 2017. Microsemi is headquartered in Aliso Viejo, California, and has approximately 4,800 employees globally. See Note 23, Subsequent Events, for additional details regarding this acquisition.

Principles of Consolidation

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (US GAAP). The consolidated financial statements include the accounts of Microchip and its majority-owned and controlled subsidiaries. All of the Company's subsidiaries are included in the consolidated financial statements. 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.

Revenue Recognition (prior to the adoption of ASC 606)

The Company recognizes revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title has occurred, the pricing is fixed or determinable and collectability is reasonably assured. The Company recognizes revenue from product sales to original equipment manufacturers (OEMs) upon shipment and records reserves for estimated customer returns.

Distributors worldwide generally have broad price protection and product return rights which prevent the sales pricing from being fixed or determinable at the time of the Company's shipment to the distributors. Therefore, revenue recognition is deferred until the pricing uncertainty is resolved, which generally occurs when the distributor sells the product to their customer. At the time of shipment to these distributors, the Company records a trade receivable for the selling price as there is a legally enforceable right to payment, relieves inventory for the carrying value of goods shipped since legal title has passed to the distributor, and records the gross margin in deferred income on shipments to distributors on its consolidated balance sheets.



In connection with its acquisitions of Atmel and Micrel, the Company acquired certain distributor relationships where revenue was recognized upon shipment to the distributors based on certain contractual terms or prevailing business practices that resulted in the price being fixed and determinable at such time. Following an acquisition, the Company undertakes efforts to align the contract terms and business practices of the acquired entity with its own. Once these efforts are complete, the related revenue recognition is changed. With respect to such distributor relationships acquired in the Atmel acquisition, as of October 1, 2016, these business practices were conformed to those of the Company's other distributors, which beginning in October 2016 resulted in the deferral of revenue recognition until the distributor sells the product to their customers. With respect to such distributor relationships acquired in the Micrel acquisition, in the December 2015 quarter, these distributor contracts were changed to be consistent with those of the Company's other distributors which resulted in the deferral of revenue recognition under such contracts until the distributor sells the product to their customers.

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Deferred income on shipments to distributors effectively represents gross margin on the sale to the distributor at the initial shipment date; however, the amount of gross margin recognized by the Company in future periods will be less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of the Company's products to their end customers and price protection concessions related to market pricing conditions.

The Company sells the majority of the items in its product catalog to its distributors worldwide at a uniform list price. However, distributors resell the Company's products to end customers at a broad range of individually negotiated price points. The majority of the Company's distributors' resales require a reduction from the original list price paid. Often, under these circumstances, the Company remits back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than the Company's cost have historically been rare. The effect of granting these credits establishes the net selling price from the Company to its distributors for the product and results in the net revenue recognized by the Company when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributors in the future. The Company does not reduce deferred income on shipments to distributors or accounts receivable by anticipated future price concessions; rather, price concessions are recorded against deferred income on shipments to distributors when incurred, which is generally at the time the distributor sells the product.

At March 31, 2018, the Company had approximately \$479.6 million of deferred revenue and \$145.8 million in deferred cost of sales recognized as \$333.8 million of deferred income on shipments to distributors. At March 31, 2017, the Company had approximately \$418.0 million of deferred revenue and \$125.2 million in deferred cost of sales recognized as \$292.8 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in the Company's income statement will be lower than the amount reflected on the balance sheet due to price credits to be granted to the distributors when the product is sold to their customers. These price credits historically have resulted in the deferred income approximating the overall gross margins that the Company recognizes in the distribution channel of its business.

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

Products returned by distributors and subsequently scrapped have historically been immaterial to the Company's consolidated results of operations. The Company routinely evaluates the risk of impairment of the deferred cost of sales component of the deferred income on shipments to distributors' account. Because of the historically immaterial amounts of inventory that have been scrapped, and historically rare instances where discounts given to a distributor result in a price less than the Company's cost, the Company believes the deferred costs have a low risk of material impairment.

Shipping charges billed to customers are included in net sales, and the related shipping costs are included in cost of sales. The Company collects and remits certain sales-related taxes on a portion of its sales of inventory and reports such amounts under the net method in its consolidated statements of income.

For licenses or other technology arrangements without an upgrade period, non-royalty revenue from the license is recognized upon delivery of the technology if the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties are recognized when reported to the Company, which generally coincides with the receipt of payment. In certain limited circumstances, the Company enters into license and other arrangements for technologies that the Company is continuing to enhance and refine or under which it is obligated to provide unspecified enhancements. Under these arrangements, non-royalty revenue is recognized over the lesser of (1) the estimated period that the Company has historically enhanced and developed refinements to the specific technology, typically one to three years (the "upgrade period"), and (2) the remaining portion of the upgrade period after the date of delivery of all specified technology and documentation, provided that the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties received during the upgrade period are recognized as revenue based on an amortization calculation of the elapsed portion of the upgrade period compared to the entire estimated upgrade period. Royalties received after the upgrade period has elapsed are recognized when reported to the Company, which generally coincides with the receipt of payment.

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### Changes to Revenue Recognition Resulting From the Adoption of ASC 606

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606), which superseded nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States of America (US GAAP). In August 2015, the FASB issued ASU 2015-14-Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which 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 was effective for the Company beginning April 1, 2018. 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 new standard allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08-Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10-Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU 2016-12-Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group. For a discussion of the financial statement impact related to the adoption of these standards, see "Recently Issued Accounting Pronouncements Not Yet Adopted".

### Product Warranty

The Company typically warrants its products against defects in materials and workmanship and non-conformance to specifications for 12 to 24 months. The majority of the Company's product warranty claims are settled through the return of the defective product and the shipment of replacement product. Warranty returns are included within the Company's allowance for returns, which is based on historical return rates. Actual future returns could differ from the allowance established. In addition, the Company accrues a liability for specific warranty costs expected to be settled other than through product return and replacement, if a loss is probable and can be reasonably estimated. Product warranty expenses were immaterial for the fiscal years ended March 31, 2018, 2017, and 2016.

### Advertising Costs

The Company expenses all advertising costs as incurred. Advertising costs were immaterial for the fiscal years ended March 31, 2018, 2017 and 2016.

### Research and Development

Research and development costs are expensed as incurred. Assets purchased to support the Company's ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their estimated useful lives. Renewals or extensions of these assets are expensed as incurred. Research and development expenses include expenditures for labor, share-based payments, depreciation, masks, prototype wafers, and expenses for development of process technologies, new packages, and software to support new products and design environments.

### Restructuring Charges

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

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### Foreign Currency Translation

The Company's foreign subsidiaries are considered to be extensions of the U.S. company and any translation gains and losses related to these subsidiaries are included in other income (expense) in the consolidated statements of income. As the U.S. dollar is utilized as the functional currency, gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiaries' functional currency) are also included in income. For a portion of fiscal 2017, certain foreign subsidiaries acquired as part of the Company's acquisition activities had the local currency as the functional currency. Once these entities were integrated into the Company's legal structure and intercompany agreements were executed, the U.S. dollar became the functional currency for such entities.

### Income Taxes

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheets. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent the Company believes that recovery is not likely, it must establish a valuation allowance. The Company provided valuation allowances for certain of its deferred tax assets, including state net operating loss carryforwards and state tax credits, where it is more likely than not that some portion, or all of such assets, will not be realized. Due to the Tax Cuts and Jobs Act (the "Act"), the Company released its valuation allowance on foreign tax credits during the period ending March 31, 2018, which was provisional. The Company is still evaluating how the Act impacts its valuation allowance on state net operating loss carryforwards and state tax credits, and it may report an adjustment to the valuation allowances under Staff Accounting Bulletin ("SAB") 118 in subsequent quarters. Should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Various taxing authorities in the U.S. and other countries in which the Company does business scrutinize the tax structures employed by businesses. Companies of a similar size and complexity as the Company are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. During the year ended March 31, 2018, various foreign jurisdictions finalized their audits. The close of these audits did not have an adverse impact on our financial statements. The Company is currently being audited by the tax authorities in the United States and various foreign jurisdictions. At this time, the Company does not know what the outcome of these audits will be. We record benefits for uncertain tax positions based on an assessment of whether it is more likely than not that the tax positions will be sustained based on their technical merits under currently enacted law. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If the threshold is met, we recognize the largest amount of the tax benefit that is more than 50% likely to be realized upon ultimate settlement.

The accounting model as defined in Accounting Standards Codification ("ASC") 740 related to the valuation of uncertain tax positions requires the Company to presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information and that each tax position will be evaluated without consideration of the possibility of offset or aggregation with other positions. The recognition requirement for the liability exists even if the Company believes the possibility of examination by a taxing authority or discovery of the related risk matters is remote or where it has a long history of the taxing authority not performing an exam or overlooking an issue. The Company will record an adjustment to a previously recorded position if new information or facts related to the position are identified in a subsequent period. All adjustments to the positions are recorded

through the income statement. Generally, adjustments will be recorded in periods subsequent to the initial recognition if the taxing authority has completed an audit of the period or if the statute of limitation expires. Due to the inherent uncertainty in the estimation process and in consideration of the criteria of the accounting model, amounts recognized in the financial statements in periods subsequent to the initial recognition may significantly differ from the estimated exposure of the position under the accounting model.

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On December 22, 2017, the Act was enacted into law. The Act provides for numerous significant tax law changes and modifications including the reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and the creation of new taxes on certain foreign-sourced earnings. As a fiscal year-end taxpayer, certain provisions of the Act began to impact the Company in the third quarter of fiscal 2018, while other provisions will impact the Company beginning in fiscal 2019.

The corporate tax rate reduction is effective as of January 1, 2018. Since the Company has a fiscal year rather than a calendar year, it is subject to rules relating to transitional tax rates. As a result, the Company's fiscal 2018 federal statutory rate will be a blended rate of 31.5%.

In addition to the impacts of tax reform on fiscal 2018, the Act establishes new tax laws that will be effective for fiscal 2019, including, but not limited to, (1) a new provision designed to tax low-taxed income of foreign subsidiaries, which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50% to offset the income tax liability (subject to some limitations); (2) limitations on the deductibility of certain executive compensation; (3) limitations on the deductibility of interest expense; and (4) limitations on the use of FTCs to reduce the U.S. income tax liability. While each of these provisions is expected to have an impact on the Company's tax expense for fiscal 2019 and future periods, the Company expects the tax on low-taxed income of foreign subsidiaries to have the most significant, adverse impact on its results.

Due to the complexity of the new tax on low-taxed income of foreign subsidiaries, the Company is continuing to evaluate this provision of the Act and the application of ASC 740. Based on recent FASB deliberations, it appears the Company will be allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income as a current-period expense when incurred or (2) factoring such amounts into its measurement of deferred taxes. The Company's selection of an accounting policy will depend, in part, on analyzing its facts to determine what the impact is expected to be under each method.

### Cash and Cash Equivalents

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

### Available-for-Sale Investments

The Company classifies its investments in debt and marketable equity securities as available-for-sale based upon management's intent with regard to the investments and the nature of the underlying securities.

The Company's available-for-sale investments consist of government agency bonds, municipal bonds, corporate bonds and marketable equity securities. The Company's investments are carried at fair value with unrealized gains and losses reported in stockholders' equity unless losses are considered to be other than temporary impairments in which case the losses are recognized through the statement of income. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security. Dividend and interest income are recognized when earned. The cost of available-for-sale debt securities sold is calculated using the first-in, first-out (FIFO) basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level.

The Company includes within short-term investments its income yielding available-for-sale securities that can be readily converted to cash and includes within long-term investments those income yielding available-for-sale securities with maturities of over one year that have unrealized losses attributable to them or those that cannot be



readily liquidated. As discussed in Note 4, if the Company anticipates that investments will be liquidated in anticipation of a pending merger, any unrealized losses are recognized as other-than-temporary impairments. If the anticipated liquidity event is within 12 months, the securities are classified as short-term investments. In the normal course of business, the Company intends and has the ability to hold its long-term investments with temporary impairments until such time as these assets are no longer impaired. As of March 31, 2018, such recovery of unrealized losses is not expected to occur within the next year as the investments will be sold.

#### Derivative Instruments

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

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

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

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. 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. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. The Company terminated its interest rate derivative instruments in fiscal 2016.

### Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for probable losses on uncollectible accounts receivable resulting from the inability of its customers to make required payments, which is included in bad debt expense. The Company determines the adequacy of this allowance by routinely analyzing the composition of accounts receivable and evaluating customer creditworthiness, credit history, facts and circumstances specific to outstanding balances and current economic conditions.

### Inventories

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

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

## Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. The Company's property and equipment accounting policies incorporate estimates, assumptions and judgments relative to the useful lives of its property and equipment. Depreciation is provided for assets placed in service on a straight-line basis over the estimated useful lives of the relative assets, which range from 10 to 40 years for buildings and building improvements and 3 to 7 years for machinery and equipment. The Company evaluates the carrying value of its property and equipment when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective.

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### Senior and Junior Subordinated Convertible Debt

The Company separately accounts for the liability and equity components of its senior and junior subordinated convertible debt in a manner that reflects its nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in its consolidated statements of income. Lastly, the Company includes the dilutive effect of the shares of its common stock issuable upon conversion of the outstanding senior and junior subordinated convertible debt in its diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have been met. The Company applies the treasury stock method as it has the intent and ability to settle the principal amounts of the senior and junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average market value of the Company's common stock for a reporting period exceeds the conversion prices per share and adjust as dividends are recorded in the future.

Upon a de-recognition event such as a settlement or conversion, the Company estimates the fair value of the liability component and compares that to the carrying amount in order to calculate the appropriate amount of gain or loss. The remaining amounts paid or issued (in the case of non cash consideration in the form of shares of common stock) are recognized as a reduction of additional paid-in-capital. The fair value of the liability component is estimated using the current comparable borrowing rate for an otherwise identical non-convertible debt instrument.

### Defined Benefit Pension Plans

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

### Contingencies

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

The Company accrues for claims and contingencies when losses become probable and reasonably estimable. As of the end of each applicable reporting period, the Company reviews each of its matters and, where it is probable that a liability has been or will be incurred, it accrues for all probable and reasonably estimable losses. Where the Company can reasonably estimate a range of losses it may incur regarding such a matter, it records an accrual for the amount within the range that constitutes its best estimate. If the Company can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, it uses the amount that is the low end of such range.

## Business Combinations

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

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significant judgment. The valuation of intangible assets, in particular, requires that the Company use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows.

### Goodwill and Other Intangible Assets

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

The Company is required to perform an impairment review of indefinite-lived intangible assets, including goodwill annually, and more frequently under certain circumstances. Indefinite-lived intangible assets are subjected to this annual impairment test during the fourth quarter of the Company's fiscal year. The Company engages primarily in the development, manufacture and sale of semiconductor products as well as technology licensing. As a result, the Company concluded there are two reporting units, semiconductor products and technology licensing. Under the qualitative indefinite-lived intangible asset impairment assessment standard, management evaluates whether it is more likely than not that the indefinite-lived intangible assets are impaired. If it is determined that it is more likely than not, the Company proceeds with the next step of the impairment test, which compares the fair value of the reporting unit or indefinite-lived intangible asset to its carrying value. If the Company determines through the impairment process that the indefinite-lived intangible asset has been impaired, the Company will record the impairment charge in its results of operation. Through March 31, 2018, the Company has not had impaired goodwill. In the event that facts and circumstances indicate definite-lived intangible assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets. If such indicators are present, recoverability is evaluated based on whether the sum of the estimated undiscounted cash flows attributable to the asset (group) in question is less than their carrying value. If less, the Company measures the fair value of the asset (group) and recognizes an impairment loss if the carrying amount of the assets exceeds their respective fair values.

### Impairment of Long-Lived Assets

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

### Share-Based Compensation

The Company has equity incentive plans under which non-qualified stock options and restricted stock units (RSUs) have been granted to employees and non-employee members of the Board of Directors. For the past several years the

Company has adopted RSUs as its primary equity incentive compensation instrument for employees. The Company also has employee stock purchase plans for eligible employees. Share-based compensation cost is measured on the grant date based on the fair market value of the Company's common stock discounted for expected future dividends and is recognized as expense on a straight-line basis over the requisite service periods.

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

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During fiscal 2017, the Company elected to early adopt ASU 2016-09-Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718). See "Recently Adopted Accounting Pronouncements" for additional information on the new guidance.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of investments in debt securities and trade receivables. Investments in debt securities with original maturities of greater than six months consist primarily of AAA and AA rated financial instruments and counterparties. The Company's investments are primarily in direct obligations of the U.S. government or its agencies, corporate bonds, and municipal bonds.

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

Distributor advances, included in deferred income on shipments to distributors in the consolidated balance sheets, totaled \$203.9 million at March 31, 2018 and March 31, 2017. On sales to distributors, the Company's payment terms generally require the distributor to settle amounts owed to the Company for an amount in excess of their ultimate cost. The Company's sales price to its distributors may be higher than the amount that the distributors will ultimately owe the Company because distributors often negotiate price reductions after purchasing the products from the Company and such reductions are often significant. It is the Company's practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of the Company's distributors. As such, the Company has entered into agreements with certain distributors whereby it advances cash to the distributors to reduce the distributors' working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on revenue recognition or the Company's consolidated statements of income. The Company processes discounts taken by distributors against its deferred income on shipments to distributors' balance and trues-up the advanced amounts generally after the end of each completed fiscal quarter. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be canceled by the Company at any time.

### Use of Estimates

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

### Business Segments

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



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

The Company's product groups have similar products, production processes, types of customers and methods for distribution. In addition, the tools and technologies used in the design and manufacture of the Company's products are shared among the various product groups. The Company's product group leaders, under the direction of the CODMs, define the product roadmaps and team with sales personnel to achieve design wins and revenue and other performance targets. Product group leaders also interact with manufacturing and operational personnel who are responsible for the production, prioritization and planning of the Company's manufacturing capabilities to help ensure the efficiency of the Company's operations and

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fulfillment of customer requirements. This centralized structure supports a global operating strategy in which the CODMs assess performance and allocate resources based on the Company's consolidated results.

### Recently Adopted Accounting Pronouncements

During the three months ended June 30, 2017, the Company adopted 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 annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and is applied prospectively. The adoption of this standard did not have a material impact on the Company's financial statements.

During the three months ended June 30, 2017, the Company elected to early adopt ASU 2017-07-Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendment will require the employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost will be presented separately in the income statement from the service cost component outside of income from operations. The amendment is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted at the beginning of an annual period (in the first interim period) for which financial statements have not yet been issued. The adoption of this standard did not have a material impact on the Company's financial statements.

During the three months ended June 30, 2016, the Company elected to early adopt ASU 2016-09-Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several aspects of the accounting for share-based payment transactions. Under this standard, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. The Company elected to recognize forfeitures as they occur and the impact of that change in accounting policy was recorded as a \$2.0 million cumulative effect adjustment as an increase to the Company's retained earnings and a decrease to additional paid-in capital as of April 1, 2016. The Company also recorded a cumulative-effect adjustment to retained earnings for the increase of \$2.3 million in long-term deferred tax assets related to the forfeiture rate reduction on outstanding share-based payment awards. Additionally, ASU 2016-09 eliminates the requirement to report excess tax benefits and certain tax deficiencies related to share-based payment transactions in additional paid-in capital. In accordance with the new standard, the Company will record excess tax benefits and tax deficiencies as income tax benefit or provision on a prospective basis in its consolidated statements of income. The standard also eliminates the requirement that excess tax benefits be realized before companies can recognize them. Accordingly, the Company has recorded a \$47.2 million cumulative-effect adjustment to its retained earnings and long-term deferred tax assets as of April 1, 2016 for previously unrecognized excess tax benefits. ASU 2016-09 also requires excess tax benefits to be reported as operating activities in the statement of cash flows rather than as a financing activity. The Company has elected to apply the change in cash flow classification on a prospective basis and prior periods were not retrospectively adjusted.

### Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12-Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update expands an entity's ability to apply hedge accounting for nonfinancial and financial risk components and allows for a simplified approach for fair value hedging of interest rate risk. The update eliminates the need to separately measure and report hedge ineffectiveness and generally requires the entire change in fair value of a hedging instrument to be presented in the same income statement line as the hedged item.

Additionally, the update simplifies the hedge documentation and effectiveness assessment requirements under the previous guidance. The effective date of this standard is for fiscal years beginning after December 15, 2018 and early adoption is permitted. Adoption will be applied through a cumulative-effect adjustment for cash flow and net investment hedges existing at the date of adoption and prospectively for presentation and disclosure. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

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

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In June 2016, the FASB issued ASU 2016-13-Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which required waiting to recognize a loss until it is probable of having been incurred. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually and can include forecasted information. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, and permits early adoption, but not before December 15, 2018. The standard is to be applied using a modified retrospective approach. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16-Intra-Entity Transfers of Assets Other Than Inventory. This standard addresses the recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset other than inventory. Prior to the adoption of ASU 2016-16, a company will defer for financial reporting purposes the income tax expense resulting from an intra-entity asset transfer, including the taxes currently payable or paid. Upon adoption of ASU 2016-16, a company will recognize current and deferred income taxes that result from such transfers in the period in which they occur. ASU 2016-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 and is applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of the adoption of this standard will have on its consolidated financial statements but expects to recognize its previously deferred tax related to intra-entity transfers upon adoption of ASU 2016-16 as of April 1, 2018 with an estimated impact of up to \$1.6 billion cumulative-effect increase to retained earnings.

In November 2016, the FASB issued ASU 2016-18-Statement of Cash Flows: Restricted Cash. This standard requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard is to be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

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

In January 2016, the FASB issued ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial

statements.

In May 2014, the FASB issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606), which superseded nearly all existing revenue recognition guidance under US GAAP. In August 2015, the FASB issued ASU 2015-14-Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which 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 was effective for the Company beginning April 1, 2018. 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 new standard allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08-Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10-Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU 2016-12-Revenue from

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Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group. The Company will adopt the standard under the modified retrospective transition method on April 1, 2018. As described in the Company's significant accounting policies, the Company currently defers the revenue and cost of sales on shipments to distributors until the distributor sells the product to their end customer. Upon adoption of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, the Company will no longer defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. The impact of the adoption of the standard on the Company's April 1, 2018 consolidated balance sheet is expected to include: the elimination of the entire deferred income balance as of April 1, 2018 of \$334 million; a net decrease in accounts receivable of between \$41 million and \$51 million; an increase in accrued liabilities of between \$10 million and \$14 million; an increase in other current assets of between \$14 million and \$18 million; a decrease in inventories of between \$4 million and \$6 million; and an increase in retained earnings of between \$219.0 million and \$259.0 million, which includes the tax impact of adoption of between \$38.0 million and \$58.0 million. The tax impact of adoption offsets the increase to retained earnings, and also affects the Company's deferred tax balances. The change in timing of revenue recognized for sales to distributors is the primary contributor to the expected impact on the Company's April 1, 2018 consolidated balance sheet. To a lesser extent, changes in timing of revenue recognition in the Company's licensing contracts and changes from point-in-time to over-time revenue recognition for a few of the Company's contracts also contribute to the expected impact.

## Note 2. Business Acquisitions

## Acquisition of Atmel

On April 4, 2016, the Company acquired Atmel, a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately \$2.98 billion in cash and issued an aggregate of 10.1 million shares of its common stock to Atmel stockholders valued at \$486.1 million based on the closing price of the Company's common stock on April 4, 2016 and incurred transaction and other fees of approximately \$14.9 million. The total consideration transferred in the acquisition, including approximately \$7.5 million of non-cash consideration for the exchange of certain share-based payment awards of Atmel for stock awards of the Company, was approximately \$3.47 billion. In addition to the consideration transferred, the Company recognized in its consolidated financial statements \$653.0 million in liabilities of Atmel consisting of debt, taxes payable and deferred, pension obligations, restructuring, and contingent and other liabilities. The Company financed the cash portion of the purchase price using approximately \$2.04 billion of cash held by certain of its foreign subsidiaries and approximately \$0.94 billion from additional borrowings under its existing credit agreement. As a result of the acquisition, Atmel became a wholly owned subsidiary of the Company. Atmel is a worldwide leader in the design and manufacture of microcontrollers, capacitive touch solutions, advanced logic, mixed-signal, nonvolatile memory and radio frequency components. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Atmel have been included in the Company's consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Atmel's net tangible assets and intangible assets based on their estimated fair values as of April 4, 2016. 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 Atmel acquisition is deductible for tax purposes. The Company retained independent third-party appraisers to assist management in its valuation.

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

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Assets acquired	
Cash and cash equivalents	\$230.2
Accounts receivable	141.4
Inventories	335.1
Prepaid expenses and other current assets	28.4
Assets held for sale	32.0
Property, plant and equipment	129.9
Goodwill	1,286.4
Purchased intangible assets	1,888.4
Long-term deferred tax assets	46.7
Other assets	7.5
Total assets acquired	4,126.0

Liabilities assumed	
Accounts payable	(55.7 )
Other current liabilities	(121.0 )
Long-term line of credit	(192.0 )
Deferred tax liabilities	(27.5 )
Long-term income tax payable	(115.1 )
Other long-term liabilities	(141.7 )
Total liabilities assumed	(653.0 )
Purchase price allocated	\$3,473.0

Purchased Intangible Assets	Weighted Average	
	Useful Life	April 4, 2016
	(in years)	(in millions)
Core and developed technology	11	\$ 1,075.0
In-process research and development	—	140.7
Customer-related	6	630.6
Backlog	1	40.3
Other	5	1.8
Total purchased intangible assets		\$ 1,888.4

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles, acquisition-date backlog and other intangible assets. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized in a manner based on the expected cash flows used in the initial determination of fair value. In-process research and development is capitalized until such time as the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off. Customer-related intangible assets consist of Atmel'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 Atmel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Atmel's historical customer information. Customer relationships are being amortized in a manner based on the estimated cash flows associated with the existing customers and anticipated retention rates. Backlog relates to the value of orders not yet shipped by Atmel at the acquisition date, and the fair values were based on the estimated profit associated with those orders. Backlog related assets had a one year useful life and were being amortized on a straight-line basis over that period. The total weighted average amortization period of intangible assets



acquired as a result of the Atmel transaction is 9 years. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately \$178.1 million was established as a net deferred tax liability for the future amortization of the intangible assets.

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Acquisition of Micrel

On August 3, 2015, the Company acquired Micrel, Incorporated (Micrel), a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately \$430.0 million in cash and issued an aggregate of 8.6 million shares of its common stock to Micrel shareholders. The number of shares issued in the transaction was subsequently repurchased by the Company in the open market during the fiscal year ended March 31, 2016. 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 amounts borrowed under its 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, automotive and communications. 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 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 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.

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The table below represents the 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. The purchase price allocation was finalized as of June 30, 2016 (amounts in millions):

Assets acquired	
Cash and cash equivalents	\$99.1
Accounts receivable, net	14.0
Inventories	73.5
Prepaid expenses and other current assets	10.7
Property, plant and equipment, net	38.5
Goodwill	441.0
Purchased intangible assets	273.5
Other assets	4.3
Total assets acquired	954.6
Liabilities assumed	
Accounts payable	(11.1 )
Other current liabilities	(31.6 )
Deferred tax liabilities	(88.0 )
Long-term income tax payable	(7.6 )
Other long-term liabilities	(0.1 )
Total liabilities assumed	(138.4 )
Purchase price allocated	\$816.2

Purchased Intangible Assets	Weighted Average	
	Useful Life	August 3, 2015
	(in years)	(in millions)
Core and developed technology	10	\$ 175.8
In-process research and development	—	21.0
Customer-related	5	71.1
Backlog	1	5.6
Total purchased intangible assets		\$ 273.5

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

Customer-related intangible assets consist of 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 \$99.7 million was established as a net deferred tax liability for the future amortization of the intangible assets offset by \$11.4 million of net deferred tax assets.

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## Note 3. Special Charges and Other, Net

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

	For The Years Ended March 31,		
	2018	2017	2016
Restructuring			
Employee separation costs	\$1.2	\$39.1	\$9.6
Gain on sale of assets	(4.4 )	—	—
Impairment charges	—	12.6	—
Contract exit costs	0.7	44.1	0.7
Other	—	2.8	0.9
Legal settlement costs	—	—	4.3
Insurance settlement	—	—	(11.5)
Non-restructuring contract exit costs and other	\$20.0	\$—	\$—
Total	\$17.5	\$98.6	\$4.0

The Company continuously evaluates its existing operations in an attempt to identify and realize cost savings opportunities and operational efficiencies. This same approach is applied to businesses that are acquired by the Company and often the operating models of acquired companies are not as efficient as the Company's operating model which enables the Company to realize significant savings and efficiencies. As a result, following an acquisition, the Company will from time to time incur restructuring expenses; however, the Company is often not able to estimate the timing or amount of such costs in advance of the period in which they occur. The primary reason for this is that the Company regularly reviews and evaluates each position, contract and expense against the Company's strategic objectives, long-term operating targets and other operational priorities. Decisions related to restructuring activities are made on a "rolling basis" during the course of the integration of an acquisition whereby department managers, executives and other leaders work together to evaluate each of these expenses and make recommendations. As a result of this approach, at the time of an acquisition and at March 31, 2018, the Company is not able to estimate the total or future amount of expected employee separation or exit costs that it will incur in connection with its restructuring activities.

During fiscal 2018, the Company incurred expenses including non-restructuring contract exit costs of \$19.5 million for fees associated with transitioning from the public utility provider in Oregon to a lower cost direct access provider. The fee is paid monthly and will depend on the amount of actual energy consumed by the Company's wafer fabrication facility in Oregon over the next five years. In connection with the transition to a direct access provider, the Company signed a ten-year supply agreement to purchase monthly amounts of energy that are less than the current average usage and priced on a per mega watt hour published index rate in effect at those future dates. Also during fiscal 2018, the Company incurred \$1.2 million of employee separation costs in connection with the acquisition of Atmel. The Company may continue to incur additional costs in the future as additional synergies or operational efficiencies are identified. The Company is not able to estimate the amount of such future expenses, if any, at this time.

The Company's restructuring expenses during fiscal 2017 were related to the Company's most recent business combinations, including the acquisitions of Atmel and Micrel, and resulted from workforce, property and other operating expense rationalizations as well as combining product roadmaps and manufacturing operations. These expenses were for employee separation costs, contract exit costs, other operating expenses and intangible asset impairment losses. At March 31, 2017, these activities were substantially complete.

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company incurred \$52.2 million in costs since the start of fiscal 2015 in connection with employee separation activities, of which \$1.2 million, \$39.1 million and \$9.6 million was incurred during the fiscal years ended March 31, 2018, 2017 and 2016, respectively. These employee separation activities are now substantially complete and any future amounts are not expected to be material. The Company has incurred \$45.3 million in costs in connection with contract exit activities since the start of fiscal 2015 which includes \$0.7 million, \$44.1 million and \$0.7 million incurred for the years ended March 31, 2018, 2017 and 2016, respectively. These acquisition-related contract exit activities are substantially complete and any future amounts are not expected to be material.

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In the three months ended June 30, 2017, the Company completed the sale of an asset it acquired as part of its acquisition of Micrel for proceeds of \$10.0 million and the gain of \$4.4 million is included in the gain on sale of assets in the above table. As of March 31, 2017, these assets consisting of property, plant and equipment were presented as held for sale in the Company's consolidated financial statements.

The impairment charges in fiscal 2017 were recognized as a result of changes in the combined product roadmaps after the acquisition of Atmel that affected the use and life of these assets.

The following is a roll forward of accrued restructuring charges for fiscal 2018 and fiscal 2017 (amounts in millions):

	Employee Separation Costs	Exit Costs	Total
Balance at March 31, 2016 - Restructuring Accrual	\$ 0.1	\$—	\$0.1
Additions due to Atmel acquisition	6.3	—	6.3
Charges	39.1	44.1	83.2
Payments	(38.9 )	(7.0 )	(45.9 )
Non-cash - Other	(0.5 )	(2.3 )	(2.8 )
Changes in foreign exchange rates	(0.7 )	—	(0.7 )
Balance at March 31, 2017 - Restructuring Accrual	5.4	34.8	40.2
Charges	1.2	0.7	1.9
Payments	(5.9 )	(9.2 )	(15.1 )
Non-cash - Other	(0.2 )	1.0	0.8
Changes in foreign exchange rates	0.3	—	0.3
Balance at March 31, 2018 - Restructuring Accrual	\$ 0.8	\$27.3	\$28.1
Current			\$11.9
Non-current			16.2
Total			\$28.1

The restructuring liability of \$28.1 million is included in accrued liabilities and other long-term liabilities, on the Company's consolidated balance sheets as of March 31, 2018.

## Note 4. 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 March 31, 2018 (amounts in millions):

	Available-for-sale Securities			
Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Government agency bonds	\$723.2	\$ —	\$ —	—\$723.2
Municipal bonds - taxable	14.9	—	—	14.9
Time deposits	11.5	—	—	11.5
Corporate bonds and debt	542.9	—	—	542.9
Marketable equity securities	0.7	2.1	—	2.8
Total	\$1,293.2	\$ 2.1	\$ —	—\$1,295.3





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The following is a summary of available-for-sale securities at March 31, 2017 (amounts in millions):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$227.1	\$ —	\$ (0.2 )	\$ 226.9
Municipal bonds - tax exempt	55.3	—	—	55.3
Municipal bonds - taxable	10.0	—	—	10.0
Corporate bonds and debt	207.9	0.1	(0.2 )	207.8
Marketable equity securities	0.7	0.9	—	1.6
Total	\$501.0	\$ 1.0	\$ (0.4 )	\$ 501.6

At March 31, 2018, all of the Company's available-for-sale securities are presented on the consolidated balance sheets as short-term investments of \$1,295.3 million. All available-for-sale debt securities are classified as short-term on the consolidated balance sheet because the Company intends to sell them in the first quarter of fiscal 2019 to fund the closing of its pending acquisition of Microsemi. At March 31, 2017, the Company's available-for-sale securities are presented on the consolidated balance sheets as short-term investments of \$394.1 million and long-term investments of \$107.5 million.

There were no sales of available-for-sale investments during the year ended March 31, 2018. The Company sold available-for-sale investments for proceeds of \$470.2 million and \$1,501.5 million during the years ended March 31, 2017 and 2016, respectively. The Company had no material net realized gains from sales of available-for-sale marketable equity and debt securities during the years ended March 31, 2018 and March 31, 2017 compared to gains of \$13.7 million during the year ended March 31, 2016. During the three months ended March 31, 2018, the Company recognized an impairment of \$15.5 million on available-for-sale investments based on its evaluation of available evidence and the Company's intent to sell these investments during the first quarter of fiscal 2019 to fund its pending acquisition of Microsemi. The Company determines the cost of available-for-sale debt securities sold on a first-in first-out (FIFO) basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level. Gains and losses recognized in earnings are credited or charged to other income (expense) on the consolidated statements of income.

As of March 31, 2018, the Company did not have any investments in an unrealized position for which an other-than-temporary impairment had not been recognized. The following table 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 during the year ended March 31, 2017 (amounts in millions):

	March 31, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government agency bonds	\$196.9	\$ (0.2 )	\$ —	—	—\$196.9	\$ (0.2 )
Municipal bonds - tax exempt	55.3	—	—	—	55.3	—
Corporate bonds and debt	132.8	(0.2 )	—	—	132.8	(0.2 )
Total	\$385.0	\$ (0.4 )	\$ —	—	—\$385.0	\$ (0.4 )

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2018, by contractual maturity, excluding marketable equity securities of \$2.8 million, which have no contractual maturity, are shown below (amounts in millions). Expected maturities can differ from contractual maturities because the issuers of the securities

may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

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	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$246.5	\$	—\$	—\$246.5
Due after one year and through five years	1,046.0	—	—	1,046.0
Due after five years and through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	\$1,292.5	\$	—\$	—\$1,292.5

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2017, by maturity, excluding marketable equity securities of \$1.6 million, which have no contractual maturity, are shown below (amounts in millions).

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$ 342.7	\$ —	\$ (0.2 )	\$ 342.5
Due after one year and through five years	157.6	0.1	(0.2 )	157.5
Due after five years and through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	\$ 500.3	\$ 0.1	\$ (0.4 )	\$ 500.0

## Note 5. Fair Value Measurements

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

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

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

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

## Marketable Debt Instruments

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

observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

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## Assets Measured at Fair Value on a Recurring Basis

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

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

Assets measured at fair value on a recurring basis at March 31, 2017 are as follows (amounts in millions):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Balance
Assets			
Cash and cash equivalents:			
Money market mutual funds	\$ 343.8	\$ —	\$343.8
Deposit accounts	—	564.9	564.9
Short-term investments:			
Marketable equity securities	1.6	—	1.6
Corporate bonds and debt	—	165.2	165.2
Government agency bonds	—	162.0	162.0
Municipal bonds - tax-exempt	—	55.3	55.3
Municipal bonds - taxable	—	10.0	10.0
Long-term Investments:			
Corporate bonds and debt	—	42.6	42.6
Government agency bonds	—	64.9	64.9
Total assets measured at fair value	\$ 345.4	\$ 1,064.9	\$1,410.3

There were no transfers between Level 1 or Level 2 during fiscal 2018 or fiscal 2017. There were no assets measured on a recurring basis during fiscal 2018 or fiscal 2017 using significant unobservable inputs (Level 3).

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

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

The Company's non-marketable and cost method investments are monitored on a quarterly basis for impairment charges. The fair values of these investments have been determined as Level 3 fair value measurements because the valuations use unobservable inputs that require management's judgment due to the absence of quoted market prices. There were no impairment charges recognized on these investments during the years ended March 31, 2018, 2017 and 2016. These investments are included in other assets on the consolidated balance sheets.

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

## Note 6. 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 March 31, 2018 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.

## Fair Value of Subordinated Convertible Debt

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

The following table shows the carrying amounts and fair values of the Company's senior and junior subordinated convertible debt as of March 31, 2018 and 2017 (amounts in millions). As of March 31, 2018 and March 31, 2017, the carrying amounts of the Company's senior and junior subordinated convertible debt have been reduced by debt issuance costs of \$34.2 million and \$38.3 million, respectively.

	March 31, 2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2017 Senior Debt	\$ 1,437.6	\$ 2,459.2	\$ 1,384.9	\$ 2,106.2
2015 Senior Debt	\$ 1,309.9	\$ 3,079.1	\$ 1,261.8	\$ 2,481.7
2017 Junior Debt	\$ 326.7	\$ 876.9	\$ 262.3	\$ 586.6
2007 Junior Debt	\$ —	\$ —	\$ 50.0	\$ 445.1

## Note 7. Other Financial Statement Details

Accounts Receivable

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

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	March 31,	
	2018	2017
Trade accounts receivable	\$557.8	\$473.3
Other	8.1	7.2
Total accounts receivable, gross	565.9	480.5
Less allowance for doubtful accounts	2.2	2.1
Total accounts receivable, net	\$563.7	\$478.4

## Inventories

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

	March 31,	
	2018	2017
Raw materials	\$26.0	\$14.4
Work in process	311.8	268.3
Finished goods	138.4	134.5
Total inventories	\$476.2	\$417.2

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

## Property, Plant and Equipment

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

	March 31,	
	2018	2017
Land	\$73.4	\$73.4
Building and building improvements	508.5	499.7
Machinery and equipment	1,943.9	1,774.9
Projects in process	118.3	104.3
Total property, plant and equipment, gross	2,644.1	2,452.3
Less accumulated depreciation and amortization	1,876.2	1,769.0
Total property, plant and equipment, net	\$767.9	\$683.3

Depreciation expense attributed to property, plant and equipment was \$123.7 million, \$122.9 million and \$103.9 million for the fiscal years ending March 31, 2018, 2017 and 2016, respectively.

During the quarter ended March 31, 2018, the Company entered into an agreement to purchase one of the buildings it leased in San Jose, California for a purchase price of \$40.8 million with a closing date of April 4, 2018.

During the quarter ended December 31, 2016, the Company began to actively market a 6-inch wafer fabrication facility it acquired as part of its acquisition of Micrel in August 2015. In the three months ended June 30, 2017, the Company completed the sale of these assets for proceeds of \$10.0 million. As of March 31, 2017, these assets consisting of property, plant and equipment were presented as held for sale in the Company's consolidated financial statements.

## Note 8. Discontinued Operations

Discontinued operations include the mobile touch operations that the Company acquired as part of its acquisition of Atmel. The mobile touch assets had been marketed for sale since the Company's acquisition of Atmel on April 4, 2016 based on management's decision that it was not a strategic fit for the Company's product portfolio. On November 10, 2016, the

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Company completed the sale of the mobile touch assets to Solomon Systech (Limited) International, a Hong Kong based semiconductor company. The transaction included the sale of certain semiconductor products, equipment, customer list, backlog, patents, and a license to certain other intellectual property and patents related to the Company's mobile touch product line. The Company also agreed to provide certain transition services to Solomon Systech, which were substantially complete as of March 31, 2017. For financial statement purposes, the results of operations for this discontinued business have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations.

As the Company completed the sale of the mobile touch assets on November 10, 2016, there are no discontinued operations in the year ended March 31, 2018. The results of discontinued operations for the year ended March 31, 2017 are as follows (amounts in millions):

	March 31, 2017
Net sales	\$18.3
Cost of sales	15.8
Operating expenses	10.7
Gain on Sale	0.6
Income tax benefit	(1.6 )
Net loss from discontinued operations	\$(6.0)

## Note 9. Intangible Assets and Goodwill

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

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

	March 31, 2017		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	\$1,932.3	\$ (419.5 )	\$1,512.8
Customer-related	716.9	(123.6 )	593.3
Trademarks and trade names	11.7	(9.6 )	2.1
In-process research and development	38.5	—	38.5
Distribution rights	5.6	(5.3 )	0.3
Other	1.5	(0.4 )	1.1
Total	\$2,706.5	\$ (558.4 )	\$2,148.1

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the year ended March 31, 2018, the Company acquired \$7.1 million of core and developed technology which has a weighted average amortization period of 9 years. In fiscal 2018, \$26.2 million of in-process research and development intangible assets reached technological feasibility and was reclassified as core and developed technology

and began being amortized over the respective estimated useful lives. The following is an expected amortization schedule for the intangible assets for fiscal 2019 through fiscal 2023, absent any future acquisitions or impairment charges (amounts in millions):

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## Fiscal Year Ending Projected Amortization

March 31,	Expense
2019	\$362.8
2020	314.6
2021	259.3
2022	192.5
2023	143.7

Amortization expense attributed to intangible assets was \$492.2 million, \$346.3 million and \$179.3 million for fiscal 2018, 2017 and 2016, respectively. In fiscal 2018, \$6.1 million was charged to cost of sales and \$486.1 million was charged to operating expenses. In fiscal 2017, \$4.0 million was charged to cost of sales and \$342.3 million was charged to operating expenses. In fiscal 2016, \$3.6 million was charged to cost of sales and \$175.7 million was charged to operating expenses. The Company recognized impairment charges of \$0.5 million and \$0.6 million in fiscal 2018 and fiscal 2016, respectively. During fiscal 2017, the Company recognized \$11.9 million of intangible asset impairment changes, primarily as a result of the acquisition of Atmel. The impairment losses were recognized as a result of changes in the combined product roadmaps after the acquisition of Atmel that affected the use and life of these assets.

Goodwill activity for fiscal 2018 and fiscal 2017 was as follows (amounts in millions):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2016	\$ 993.5	\$ 19.2
Additions due to the acquisition of Atmel	1,286.3	—
Balance at March 31, 2017	2,279.8	19.2
Balance at March 31, 2018	\$ 2,279.8	\$ 19.2

At March 31, 2018, the Company applied a qualitative goodwill impairment test to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through March 31, 2018, the Company has never recorded an impairment charge against its goodwill balance.

## Note 10. Income Taxes

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

	Year Ended March 31,		
	2018	2017	2016
Pretax Income:			
U.S.	\$(127.3)	\$(279.3)	\$(75.5)
Foreign	864.6	369.1	356.8
	\$737.3	\$89.8	\$281.3
Current expense (benefit):			
U.S. Federal	\$369.4	\$21.3	\$(4.0)
State	0.5	1.0	(0.2)
Foreign	60.8	23.8	22.0
Total current	\$430.7	\$46.1	\$17.8
Deferred expense (benefit):			
U.S. Federal	\$82.5	\$(114.7)	\$(42.2)
State	0.1	(5.4)	(2.0)

Foreign	(31.4 )	(6.8 )	(16.2 )
Total deferred	51.2	(126.9 )	(60.4 )
Total Income tax provision (benefit)	\$481.9	\$(80.8 )	\$(42.6 )

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On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted into law. The Act provides for numerous significant tax law changes and modifications including the reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and the creation of new taxes on certain foreign-sourced earnings. As a fiscal year-end taxpayer, certain provisions of the Act began to impact the Company in the third quarter of fiscal 2018, while other provisions will impact the Company beginning in fiscal 2019.

The corporate tax rate reduction is effective as of January 1, 2018. Since the Company has a fiscal year rather than a calendar year, it is subject to rules relating to transitional tax rates. As a result, the Company's fiscal 2018 federal statutory rate will be a blended rate of 31.5%.

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

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") of its foreign subsidiaries. Substantially all of the Company's E&P were permanently reinvested outside the U.S prior to the Act. The Company recorded provisional U.S. amounts for its one-time transition tax liabilities, resulting in an increase in income tax provision of \$653.7 million. In addition, the Company released the deferred tax liabilities related to non-permanently reinvested E&P, resulting in a decrease in income tax provision of \$9.0 million. The net increase to tax provision is \$644.7 million. The one-time transition tax may be elected to be paid over a period of eight years. The Company intends to make this election.

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

As a result of the reduction of the corporate income tax rate to 21.0%, U.S. GAAP requires companies to remeasure their deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the reporting period of enactment. The Company remeasured deferred tax assets and liabilities based on the rates at which they are expected to be utilized in the future. The provisional amount recorded for the remeasurement and resulting income tax benefit of the Company's deferred tax balance was \$136.7 million.

Due to the Act, the Company released its valuation allowance on foreign tax credits during the year ended March 31, 2018. The provisional amount recorded for the valuation allowance release was an income tax benefit of \$36.4 million. The Company is still evaluating how the Act impacts the valuation allowance on state net operating loss carryforwards and state tax credits, and the Company may report an adjustment to the valuation allowances in accordance with SAB 118 in subsequent quarters.

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

	Year Ended March 31,		
	2018	2017	2016
Computed expected income tax provision	\$232.6	\$31.4	\$98.4
Foreign income taxed at lower than the federal rate	(208.8 )	(105.0 )	(120.1 )
Impact of the Act - one-time transition tax, net of foreign tax credits	653.7	—	—
Impact of the Act - deferred tax effects, net of valuation allowance	(136.7 )	—	—
Increases related to current and prior year tax positions	32.0	53.7	14.5
Decreases related to prior year tax positions <sup>(1)</sup>	(11.3 )	(36.3 )	(12.1 )
Share-based compensation	(27.2 )	(25.0 )	—
Research and development tax credits - current year	(17.0 )	(12.8 )	(13.5 )
Research and development tax credits - prior years	—	—	(2.5 )
Intercompany prepaid tax asset amortization	7.4	7.9	(15.5 )
Withholding taxes	1.4	5.6	6.0
Foreign exchange	(20.5 )	(1.7 )	5.6
Other	(3.2 )	(0.4 )	(0.9 )
Change in valuation allowance	(20.5 )	1.8	(2.5 )
Total income tax provision (benefit)	\$481.9	\$(80.8)	\$(42.6)

<sup>(1)</sup> The release of prior year tax positions during fiscal 2018 increased the basic and diluted net income per common share by \$0.05. The release of prior year tax positions during fiscal 2017 increased the basic and diluted net income per common share by \$0.17 and \$0.15, respectively. The release of prior year tax positions during fiscal 2016 increased the basic and diluted net income per common share by \$0.06.

The foreign tax rate differential benefit primarily relates to the Company's operations in Thailand, Cayman and Ireland. The Company's Thailand manufacturing operations are currently subject to numerous tax holidays granted to the Company based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire between 2022 and 2025, however, the Company actively seeks to obtain new tax holidays. The Company does not expect the future expiration of any of its tax holiday periods in Thailand to have a material impact on its effective tax rate. The aggregate dollar benefits derived from these tax holidays approximated \$6.2 million, \$13.2 million and \$9.4 million in fiscal 2018, 2017 and 2016, respectively. The impact of the tax holidays during fiscal 2018 increased the basic and diluted net income per common share by \$0.03 and \$0.02, respectively. The impact of the tax holidays during fiscal 2017 increased the basic and diluted net income per common share by \$0.06. The impact of the tax holidays during fiscal 2016 increased the basic and diluted net income per common share by \$0.05 and \$0.04, respectively.

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

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	March 31,	
	2018	2017
Deferred tax assets:		
Deferred income on shipments to distributors	\$39.1	\$55.7
Inventory valuation	10.7	14.6
Net operating loss carryforward	101.1	91.6
Capital loss carryforward	10.6	12.9
Share-based compensation	31.4	42.5
Income tax credits	178.4	243.0
Property, plant and equipment	25.7	59.7
Accrued expenses and other	91.2	110.4
Gross deferred tax assets	488.2	630.4
Valuation allowances	(204.5 )	(210.1 )
Deferred tax assets, net of valuation allowances	283.7	420.3
Deferred tax liabilities:		
Convertible debt	(304.4 )	(606.7 )
Intangible assets	(66.6 )	(147.5 )
Other	(18.3 )	(6.3 )
Deferred tax liabilities	(389.3 )	(760.5 )
Net deferred tax liability	\$(105.6)	\$(340.2)
Reported as:		
Non-current deferred tax assets	\$100.2	\$68.9
Non-current deferred tax liability	(205.8 )	(409.1 )
Net deferred tax liability	\$(105.6)	\$(340.2)

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

The Company had federal, state and foreign NOL carryforwards with an estimated tax effect of \$101.1 million available at March 31, 2018. The federal and state NOL carryforwards expire at various times between 2018 and 2037. The Company believes that it is more likely than not that the benefit from certain foreign and state NOL carryforwards will not be realized. In recognition of this risk, at March 31, 2018, the Company has provided a valuation allowance of \$74.6 million. The Company also has state tax credits with an estimated tax effect of \$96.3 million available at March 31, 2018. These state tax credits expire at various times between 2018 and 2037. The Company believes that it is more likely than not that the full benefit from these state tax credits will not be realized, and therefore has provided a valuation allowance of \$96.3 million. The Company has capital loss carryforwards with an estimated tax effect of \$10.6 million available at March 31, 2018. These capital loss carryforwards begin to expire in 2020. The Company believes that it is more likely than not that the full benefit from these capital losses will not be realized, and therefore has provided a valuation allowance of \$10.4 million. The Company no longer maintains a U.S. foreign tax credit carryforward, alternative minimum tax credit carryforward, or credit for increasing research activities credit carryforwards, as all of these credits are expected to be utilized as a result of the one-time transition tax in the United States as of March 31, 2018. The Company had refundable foreign tax credits of \$49.2 million available at March 31, 2018. In addition, the Company had \$20.0 million of withholding tax credits that expire at various times between 2022 and 2024 in foreign jurisdictions. The Company believes it is more likely than not that the benefit from these credits will not be fully realized and has provided a valuation allowance of \$20.0 million.



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During the year ended March 31, 2016, the H.R. 2029 "Protecting Americans from Tax Hikes Act of 2015" was signed into law which extended certain business tax provisions through December 31, 2019, including IRC section 954(c)(6) dealing with the application of Subpart F to certain inter-company payments among controlled foreign corporations. The expiration of section 954(c)(6) and the other expired provisions could have a material impact on the Company's consolidated results of operations subsequent to the year ended March 31, 2020.

The Company recognizes interest and penalties related to unrecognized tax benefits through income tax expense. The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2005 and later tax years remain effectively open for examination by tax authorities. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2007.

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

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

The Company believes it maintains appropriate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve amounts ultimately prove to be unnecessary, the resulting reversal of such reserves could result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits from April 1, 2015 to March 31, 2018 (amounts in millions):

	Year Ended March 31,		
	2018	2017	2016
Beginning balance	\$398.5	\$220.7	\$170.7
Increases related to acquisitions	—	193.3	46.2
Decreases related to settlements with tax authorities	(0.1 )	(11.7 )	(8.0 )
Decreases related to statute of limitation expirations	(10.9 )	(7.6 )	(4.6 )
Increases related to current year tax positions	30.3	26.3	16.4
Increases (decreases) related to prior year tax positions	18.2	(22.5 )	—
Ending balance	\$436.0	\$398.5	\$220.7

As of March 31, 2018, the Company had accrued approximately \$12.9 million related to the potential payment of interest on the Company's uncertain tax positions. As of March 31, 2017, the Company had accrued approximately

\$9.4 million related to the potential payment of interest on the Company's uncertain tax positions. Interest was included in the provision for income taxes. The Company has accrued for approximately \$67.9 million and \$66.1 million in penalties related to its uncertain tax positions related primarily to its international locations as of March 31, 2018 and March 31, 2017, respectively. Interest and penalties charged to operations during the years ended March 31, 2018, 2017 and 2016 related to the Company's uncertain tax positions were \$5.4 million, \$5.8 million and \$1.7 million, respectively.

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The total amount of gross unrecognized tax benefits was \$436.0 million and \$398.5 million as of March 31, 2018 and 2017, respectively, and is estimated to impact the Company's effective tax rate, if recognized. We estimate that our unrecognized tax benefits as of March 31, 2018 could possibly decrease by approximately \$20.0 million in the next 12 months. Positions that may be resolved include various U.S. and non-U.S. matters.

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## Note 11. Debt and Credit Facility

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

	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance <sup>(1)</sup>	March 31,	
				2018	2017
Senior Indebtedness					
Credit Facility				\$—	\$—
Senior Subordinated Convertible Debt - Principal Outstanding					
2017 Senior Debt, maturing February 15, 2027 (2017 Senior Debt)	1.625%	6.0%	\$1,396.3	\$2,070.0	\$2,070.0
2015 Senior Debt, maturing February 15, 2025 (2015 Senior Debt)	1.625%	5.9%	1,160.1	1,725.0	1,725.0
Junior Subordinated Convertible Debt - Principal Outstanding					
2017 Junior Debt, maturing February 15, 2037 (2017 Junior Debt)	2.250%	7.4%	321.1	686.3	575.0
2007 Junior Debt, maturing December 15, 2037 (2007 Junior Debt)	2.125%	9.1%	—	—	143.8
Total Convertible Debt				4,481.3	4,513.8
Gross long-term debt including current maturities				4,481.3	4,513.8
Less: Debt discount <sup>(2)</sup>				(1,372.9 )	(1,516.5 )
Less: Debt issuance costs <sup>(3)</sup>				(40.1 )	(46.8 )
Net long-term debt including current maturities				3,068.3	2,950.5
Less: Current maturities <sup>(4)</sup>				(1,309.9 )	(50.0 )
Net long-term debt				\$1,758.4	\$2,900.5

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

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

	March 31,	
	2018	2017
2017 Senior Debt	\$(616.3 )	\$(667.5 )
2015 Senior Debt	(400.3 )	(446.6 )
2017 Junior Debt	(356.3 )	(309.3 )
2007 Junior Debt	—	(93.1 )
Total unamortized discount	\$(1,372.9)	\$(1,516.5)

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

	March 31,	
	2018	2017
Senior Credit Facility	\$(5.9 )	\$(8.5 )
2017 Senior Debt	(16.1 )	(17.6 )
2015 Senior Debt	(14.8 )	(16.6 )
2017 Junior Debt	(3.3 )	(3.4 )
2007 Junior Debt	—	(0.7 )
Total debt issuance costs	\$(40.1)	\$(46.8)

(4) Current maturities include the full balance of the 2015 Senior Debt as of March 31, 2018 and the full balance of the 2007 Junior Debt as of March 31, 2017.

**Ranking of Indebtedness** - The Senior Subordinated Convertible Debt and Junior Subordinated Convertible Debt (collectively, the Convertible Debt) are unsecured obligations which are subordinated in right of payment to the amounts outstanding under the Company's Credit Facility. The Junior Subordinated Convertible Debt is expressly subordinated in right of payment to any existing and future senior debt of the Company (including the Credit Facility and the Senior Subordinated Convertible Debt) and is structurally subordinated in right of payment to the liabilities of the Company's subsidiaries. The Senior Subordinated Convertible Debt is subordinated to the Credit Facility; ranks senior to the Company's indebtedness that is expressly subordinated in right of payment, including the Junior Subordinated Convertible Debt; ranks equal in right of payment to any of the Company's unsubordinated indebtedness that does not provide that it is senior to the Senior Subordinated Convertible Debt; ranks junior in right of payment to any of the Company's secured, unsubordinated indebtedness to the extent of the value of the assets securing such indebtedness; and ranks junior 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. Until the three-months immediately preceding the maturity date of the applicable series of Convertible Debt, each series of Convertible Debt is convertible only upon the occurrence of (1) such time as the closing price of the Company's common stock exceeds the Conversion Price (see table below) by 130% for 20 days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter or (2) during the 5 business day period after any 10 consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day or (3) upon the occurrence of certain corporate events specified in the indenture of such series of Convertible Debt. In addition, for each series, if at the time of conversion the applicable price of the Company's common stock exceeds the applicable Conversion Price at such time, the applicable Conversion Rate will be increased by up to an additional maximum incremental shares rate, as determined pursuant to a formula specified in the indenture for the applicable series of Convertible Debt, and as adjusted for cash dividends paid since the issuance of such series of Convertible Debt. However, in no event will the applicable Conversion Rate exceed the applicable Maximum Conversion Rate specified in the indenture for the applicable series of Convertible Debt (see table below). The following table sets forth the applicable Conversion Rates adjusted for dividends declared since issuance of such series of Convertible Debt and the applicable Incremental Share Factors and Maximum Conversion Rates as adjusted for dividends paid since the applicable issuance date:

Dividend adjusted rates as of March 31, 2018	Approximate Incremental Maximum
Conversion Rate,	Conversion Share Conversion

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	adjusted Price, adjusted	Factor, adjusted	Rate, adjusted
2017 Senior Debt	10.1162 \$ 98.85	5.0581	14.4156
2015 Senior Debt	15.7755 \$ 63.39	7.8878	22.0857
2017 Junior Debt	10.2969 \$ 97.12	5.1485	14.4156

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As of March 31, 2018, the holders of the 2015 Senior Debt have the right to convert their debentures between April 1, 2018 and June 30, 2018 because the Company's common stock price has exceeded the Conversion Price by 130% for the specified period of time during the quarter ended March 31, 2018. As of March 31, 2018, the 2015 Senior Debt had a value if converted above par of \$1,141.7 million. The 2015 Senior Debt is included in the current portion of long-term debt.

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

Interest expense related to convertible debt includes the following (in millions):

	Year Ended March 31,		
	2018	2017	2016
Debt issuance amortization	\$3.5	\$2.1	\$1.8
Amortization of debt discount - non cash interest expense	106.1	56.1	48.0
Coupon interest expense	77.3	44.5	40.2
Total	\$186.9	\$102.7	\$90.0

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 8.88 years, 6.88 years, and 18.88 years for the 2017 Senior Debt, 2015 Senior Debt and 2017 Junior Debt, respectively.

Issuances and Settlements

In November 2017, the Company called \$14.6 million in principal value of the remaining outstanding 2007 Junior Debt with an effective date of December 15, 2017 for which substantially all holders submitted requests to convert. Prior to the call, conversion requests were received in both the second and third quarters of fiscal 2018. Total conversions for fiscal 2018 were for a principal amount of \$32.5 million for which the Company settled the principal amount in cash and issued 0.5 million shares of its common stock in respect of the conversion value in excess of the principal amount for the conversions occurring prior to the call notice and \$41.0 million in cash for the conversion value in excess of the principal amount for the conversion requests received after the call notice. A loss on total conversions was recorded for \$2.2 million. The 2007 Junior Debt was classified as a current liability on the consolidated balance sheet as of March 31, 2017.

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

In February 2017, the Company issued the 2017 Senior Debt and 2017 Junior Debt for net proceeds of \$2,043.6 million and \$567.7 million, respectively. In connection with the issuance of these instruments, the Company incurred issuance costs of \$33.7 million, of which \$17.8 million and \$3.4 million was recorded as debt issuance costs related to the 2017 Senior Debt and 2017 Junior Debt, respectively, and will be amortized using the effective interest method over the term of the debt. The balance of \$12.5 million in fees was recorded to equity. Interest on both instruments is payable semi-annually on February 15 and August 15 of each year.

In February 2015, the Company issued the 2015 Senior Debt for net proceeds of approximately \$1,694.7 million. In connection with the issuance, the Company incurred issuance costs of \$30.3 million, of which \$20.4 million was recorded as debt issuance costs and will be amortized using the effective interest method over the term of the debt. The balance of \$9.9 million was recorded to equity.

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

Credit Facility

The Company maintains a credit facility which is available until February 4, 2020 (the "Credit Agreement") which was amended subsequent to the end of fiscal 2018. See Note 23 for more details on subsequent events. At the beginning of the second quarter of fiscal 2018, the credit facility had a borrowing capacity of \$2.774 billion comprised of two tranches; one tranche terminating in 2018 (the "2018 Tranche") and one tranche terminating in 2020 (the "2020 Tranche"). During the second quarter of fiscal 2018, the Company terminated the 2018 Tranche and in connection with such termination increased the commitments for the 2020 Tranche in each of the three months ended September 30, 2017 and December 31, 2017. In November 2017, the Company entered into an augmenting lender supplement which added a new lender to the Credit Agreement with a 2020 multicurrency tranche commitment. As of March 31, 2018, the 2020 Tranche commitment under the credit facility was \$3.122 billion.

The financial covenants include, among others, limits on the Company's consolidated senior ratio and total leverage ratio. The maximum Total Leverage Ratio (capitalized terms not otherwise defined in this Form 10-K have the meaning of the defined terms in the applicable agreements) cannot exceed 5.00 to 1.00 and is calculated as Consolidated Total Indebtedness, excluding the Junior Debt up to a \$700 million maximum, to Consolidated EBIDTA for a period of four quarters. The Total Leverage Ratio may be temporarily increased to 5.50 to 1.00 for a period of four consecutive quarters in conjunction with a Permitted Acquisition occurring during the first four quarters following the acquisition. The Total Leverage Ratio then decreases to 5.25 to 1.00 for three consecutive quarters, finally returning to the stated 5.00 to 1.00 Total Leverage Ratio after a period of seven consecutive fiscal periods. The Company can elect to use this special feature, also referred to as an Adjusted Covenant Period, not more than one time from and after February 8, 2017, the effective date of the February 2017 amendment (discussed below), and may elect to terminate an Adjusted Covenant Period prior to the end of the Adjusted Covenant Period. The Credit Facility also requires that the Senior Leverage Ratio not exceed 3.50 to 1.00, which is calculated as Consolidated Senior Indebtedness to Consolidated EBIDTA for four consecutive quarters. The Company is also required to comply with an Interest Coverage Ratio of at least 3.50 to 1.00, measured quarterly.

In June 2017, in connection with the settlement of the 2007 Junior Debt, the Company amended the Credit Agreement to (i) extend the time period during which the Company is permitted to repurchase, redeem or exchange the 2007 Junior Debt and (ii) amend the maximum total leverage ratio covenant to extend the time period for permitted refinancings or exchanges of the 2007 Junior Debt that may be excluded from the calculation of the ratio, subject to certain conditions.

The Credit Agreement has a \$125 million foreign currency sublimit, a \$25 million letter of credit sublimit and a \$25 million swingline loan sublimit. The Company has the option to obtain additional tranche commitments or additional indebtedness as long as, on a proforma basis, the Senior Leverage Ratio is equal to or less than 2.50 to 1.00.

In February 2017, the Company used \$1,682.5 million of the proceeds from the issuance of the 2017 Senior Debt and 2017 Junior Debt to pay off the entire balance under the revolving credit facility. In connection with the February 2017 amendment to the Credit Agreement, the Company incurred \$2.1 million of issuance fees which will be amortized over the term of the facility and for which the balance is recorded net of any outstanding Credit Facility balance. At March 31, 2018 and 2017, there were no outstanding borrowings under the revolving credit facility and no letters of credit outstanding under the Credit Agreement.

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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 are required to pledge the equity securities of certain of their respective material subsidiaries, subject to certain exceptions and limitations. In addition, in connection with the February 2017 amendment, the Company and the guarantor subsidiaries granted a security interest in substantially all of their personal property to secure the obligations under the Credit Agreement.

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 \$9.7 million in fiscal 2018, approximately \$42.9 million in fiscal 2017 and approximately \$18.9 million in fiscal 2016. Principal, together with all accrued and unpaid interest, is due and payable on the respective tranche maturity date, which is February 4, 2020 for the 2020 tranche revolving loans. The Company pays a quarterly commitment fee on the available but unused portion of its line of credit which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a senior leverage ratio, a total leverage ratio and an interest coverage ratio, all measured quarterly and calculated on a consolidated bases. At March 31, 2018, the Company was in compliance with these financial 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.

### Note 12. Contingencies

In the ordinary course of the Company's business, it is exposed to various liabilities as a result of contracts, product liability, customer claims and other matters. Additionally, the Company is involved in a limited number of legal

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

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

**In re: Continental Airbag Products Liability Litigation.** On May 11, 2016, an Amended and Consolidated Class Action Complaint ("Complaint") was filed in the United States District Court for the Southern District of Florida (Miami Division) against Atmel, Continental Automotive Systems, Inc., Honda Motor Co., Ltd. and an affiliate, and Daimler AG and an affiliate. The Complaint included claims arising under federal law and Florida, California, New Jersey, Michigan and Louisiana state law and alleged that class members unknowingly purchased or leased vehicles containing defective airbag control units (incorporating allegedly defective application specific integrated circuits manufactured by the Company's Atmel subsidiary between 2006 and 2010), and thereby suffered financial harm, including a loss in the value of their purchased or leased vehicles. The plaintiffs were seeking, individually and on behalf of a putative class, unspecified compensatory and exemplary damages, statutory penalties, pre- and post-judgment interest, attorneys' fees, and injunctive and other relief. The Company's Atmel subsidiary contested plaintiffs' claims vigorously, and on May 23, 2017 the case was ordered to be dismissed.

**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"). The Continental airbag control units, ASICs and vehicle recalls were also at issue in In re: Continental Airbag Products Liability Litigation, described above. Continental seeks to recover from Atmel all related costs and damages incurred as a result of the vehicle manufacturers' airbag control unit-related recalls, currently alleged to be \$227.7 million. The Company's Atmel subsidiaries intend to defend this action vigorously.

**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 the wake of LFR's insolvency and liquidation, over 500 former employees of LFR have filed individual labor actions against Atmel Rousset in a French labor court. The Company's Atmel Rousset subsidiary believes that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with the Atmel Rousset subsidiary is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. The Company's Atmel Rousset subsidiary therefore intends to defend vigorously against each of these claims. Additionally, complaints have been filed in a regional court in France on behalf of the same group of employees against Microchip Technology Rousset, Atmel Switzerland Sarl, Atmel Corporation and Microchip Technology Incorporated alleging that the sale of the Atmel Rousset production unit to LFoundry GmbH was fraudulent and should be voided. These claims are based largely on the same specious arguments as listed in the Southern District of New York Action listed above. 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 March 31, 2018, the Company's estimate of the aggregate potential liability that is possible but not probable is approximately \$100 million in excess of amounts accrued.

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify

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indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$160.5 million. There are some licensing agreements in place that do not specify indemnification limits. As of March 31, 2018, the Company had not recorded any liabilities related to these indemnification obligations and the Company believes that any amounts that it may be required to pay under these agreements in the future will not have a material adverse effect on its financial position, cash flows or results of operations.

## Note 13. Stock Repurchase Activity

In December 2007, the Company announced that its Board of Directors had authorized the repurchase of up to 10.0 million shares of its common stock in the open market or in privately negotiated transactions. As of March 31, 2015, the Company had repurchased 7.5 million shares under this authorization for \$234.7 million. In May 2015, the Company's Board of Directors authorized an increase to the existing share repurchase program to 20.0 million shares of common stock from the approximately 2.5 million shares remaining under the prior authorization. During fiscal 2016, the Company repurchased 8.6 million shares under this authorization for \$363.8 million. In January 2016, the Company's Board of Directors authorized an increase to the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the prior authorization. There were no repurchases of common stock during fiscal 2018 and fiscal 2017. There is no expiration date associated with this repurchase program. As of March 31, 2018, approximately 18.2 million shares remained as treasury shares with the balance of the shares being used to fund share issuance requirements under the Company's equity incentive plans.

## Note 14. Employee Benefit Plans

## Defined Benefit Plans

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

The aggregate net pension expense relating to these two plans is as follows (amounts in millions):

	Year Ended March 31, 2018 2017	
Service costs	\$2.2	\$1.4
Interest costs	1.0	1.0
Amortization of actuarial loss	0.8	—
Settlements	—	0.5
Net pension period cost	\$4.0	\$2.9

Interest costs and amortization of actuarial losses are recorded in the other (loss) income, net line item in the statements of income.



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

	Year Ended	
	March 31,	
	2018	2017
Projected benefit obligation at the beginning of the year	\$50.4	\$40.3
Service cost	2.2	1.4
Interest cost	1.0	1.0
Settlements	—	0.5
Actuarial losses	0.7	7.9
Benefits paid	(0.8 )	(0.4 )
Foreign currency exchange rate changes	7.5	(0.3 )
Projected benefit obligation at the end of the year	\$61.0	\$50.4
Accumulated benefit obligation at the end of the year	\$55.5	\$45.6
Weighted average assumptions		
Discount rate	1.73 %	1.82 %
Rate of compensation increase	2.91 %	2.90 %

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

As the defined benefit plans are unfunded, the liability recognized on the Company's consolidated balance sheet as of March 31, 2018 was \$61.0 million of which \$0.9 million is included in accrued liabilities and \$60.1 million is included in other long-term liabilities. The liability recognized on the Company's consolidated balance sheet as of March 31, 2017 was \$50.4 million of which \$0.7 million is included in accrued liabilities and \$49.7 million is included in other long-term liabilities.

Future estimated expected benefit payments for fiscal year 2019 through 2028 are as follows (amounts in millions):

Fiscal Year Ending March 31,	Expected Benefit Payments
2019	\$ 0.9
2020	0.9
2021	1.2
2022	1.6
2023	1.6
2024 through 2028	10.6
Total	\$ 16.8

The Company's net periodic pension cost for fiscal 2019 is expected to be approximately \$3.1 million.

In connection with the acquisition of SMSC in August 2012, the Company assumed an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides former SMSC senior management with retirement, disability and death benefits. An amendment to the SERP was executed on November 3, 2009, freezing the benefit level for

existing participants as of February 28, 2010 and closing the SERP to new participants. As of March 31, 2018, the projected benefit obligation is \$4.0 million. Annual benefit payments and contributions under this plan are expected to be approximately \$0.4 million in fiscal 2019 and approximately \$3.5 million cumulatively in fiscal 2020 through fiscal 2028.

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### Defined Contribution Plans

The Company maintains a contributory profit-sharing plan for its domestic employees meeting certain eligibility and service requirements. The plan qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended, and allows employees to contribute up to 60% of their base salary, subject to maximum annual limitations prescribed by the IRS. The Company has a discretionary matching contribution program. All matches are provided on a quarterly basis and require the participant to be an active employee at the end of the applicable quarter. During fiscal 2018, 2017 and 2016, the Company's matching contributions to the plan totaled \$8.8 million, \$8.2 million and \$4.4 million, respectively.

The Company's 2001 Employee Stock Purchase Plan (the 2001 Purchase Plan) became effective on March 1, 2002. Under the 2001 Purchase Plan, eligible employees of the Company may purchase shares of common stock at semi-annual intervals through periodic payroll deductions. The purchase price in general will be 85% of the lower of the fair market value of the common stock on the first day of the participant's entry date into the offering period or of the fair market value on the semi-annual purchase date. Depending upon a participant's entry date into the 2001 Purchase Plan, purchase periods under the 2001 Purchase Plan consist of overlapping periods of either 24, 18, 12 or 6 months in duration. In May 2003 and August 2003, the Company's Board and stockholders, respectively, each approved an annual automatic increase in the number of shares reserved under the 2001 Purchase Plan. The automatic increase took effect on January 1, 2005, and on each January 1 thereafter during the term of the plan, and is equal to the lesser of (i) 1,500,000, (ii) one half of one percent (0.5%) of the then outstanding shares of the Company's common stock, or (iii) such lesser amount as is approved by Board of Directors. Upon the approval of the Board of Directors, there were no shares added under the 2001 Purchase Plan on January 1, 2018 based on the automatic increase provision. On January 1, 2017 and 2016, an additional 1,077,150 shares and 1,017,492 shares, respectively, were reserved under the 2001 Purchase Plan based on the automatic increase. Since the inception of the 2001 Purchase Plan, 13,372,504 shares of common stock have been reserved for issuance and 7,895,340 shares have been issued under this purchase plan.

During fiscal 1995, a purchase plan was adopted for employees in non-U.S. locations. Such plan provided for the purchase price per share to be 100% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. Effective May 1, 2006, the Company's Board of Directors approved a purchase price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. On May 1, 2006, the Company's Board of Directors approved an annual automatic increase in the number of shares reserved under the plan. The automatic increase took effect on January 1, 2007, and on each January 1 thereafter during the term of the plan, and is equal to one tenth of one percent (0.1%) of the then outstanding shares of the Company's common stock. Upon the approval of the Board of Directors, there were no shares added under the plan on January 1, 2018 based on the automatic increase provision. On January 1, 2017 and 2016, an additional 215,430 shares and 203,498 shares, respectively, were reserved under the plan based on the automatic increase. Since the inception of this purchase plan, 1,919,213 shares of common stock have been reserved for issuance and 1,347,972 shares have been issued under this purchase plan.

Effective January 1, 1997, the Company adopted a non-qualified deferred compensation arrangement. This plan is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of highly compensated employees as defined in ERISA Sections 201, 301 and 401. There are no Company matching contributions made under this plan.

The Company has management incentive compensation plans which provide for bonus payments, based on a percentage of base salary, from an incentive pool created from operating profits of the Company, at the discretion of the Board of Directors. During fiscal 2018, 2017 and 2016, \$48.1 million, \$41.5 million and \$19.1 million were charged against operations for these plans, respectively.

The Company also has a plan that, at the discretion of the Board of Directors, provides a cash bonus to all employees of the Company based on the operating profits of the Company. During fiscal 2018, 2017 and 2016, \$36.3 million, \$28.2 million and \$14.2 million, respectively, were charged against operations for this plan.

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## Note 15. Share-Based Compensation

## Share-Based Compensation Expense

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

	Year Ended March 31,		
	2018	2017	2016
Cost of sales	\$13.8 <sup>(1)</sup>	\$18.7 <sup>(1)</sup>	\$8.3 <sup>(1)</sup>
Research and development	42.5	46.8	32.0
Selling, general and administrative	36.9	62.6	31.1
Pre-tax effect of share-based compensation	93.2	128.1	71.4
Income tax benefit	28.3 <sup>(2)</sup>	44.2 <sup>(2)</sup>	23.0
Net income effect of share-based compensation	\$64.9	\$83.9	\$48.4

<sup>(1)</sup> During the year ended March 31, 2018, \$11.9 million of share-based compensation expense was capitalized to inventory, and \$13.8 million of previously capitalized share-based compensation expense in inventory was sold. During the year ended March 31, 2017, \$11.3 million of share-based compensation expense was capitalized to inventory. The amount of share-based compensation included in cost of sales during fiscal 2017 included \$14.5 million of previously capitalized share-based compensation expense in inventory that was sold and \$4.2 million of share-based compensation expense related to the Company's acquisition of Atmel that was not previously capitalized to inventory. During the year ended March 31, 2016, \$7.9 million of share-based compensation expense was capitalized to inventory, and \$8.3 million of previously capitalized share-based compensation expense in inventory was sold.

<sup>(2)</sup> Amounts exclude excess tax benefits related to share-based compensation of \$28.1 million and \$25.0 million for the years ended March 31, 2018 and March 31, 2017, respectively. The Company elected to early adopt ASU 2016-09 effective April 1, 2016. Prior to the adoption of ASU 2016-09, the Company recognized excess tax benefits related to share-based compensation in additional paid-in capital. Refer to Note 1 for additional information on the adoption of this standard.

The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2019 through fiscal 2023 related to unvested share-based payment awards at March 31, 2018 is \$169.6 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 1.91 years.

## Atmel Acquisition-related Equity Awards

In connection with the acquisition of Atmel, the Company assumed certain RSUs granted by Atmel. The assumed awards were measured at the acquisition date based on the estimated fair value, which was a total of \$95.9 million. A portion of that fair value, \$7.5 million, which represented the pre-acquisition vested service provided by employees to Atmel, was included in the total consideration transferred as part of the acquisition. As of the acquisition date, the remaining portion of the fair value of those awards was \$88.4 million, representing post-acquisition share-based compensation expense that will be recognized as these employees provide service over the remaining vesting periods.

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## Combined Incentive Plan Information

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

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at March 31, 2015	5,268,916	\$ 34.15
Granted	2,479,729	38.91
Assumed upon acquisition	525,442	40.58
Forfeited	(360,072 )	38.20
Vested	(1,606,273)	32.47
Nonvested shares at March 31, 2016	6,307,742	36.76
Granted	1,635,655	51.46
Assumed upon acquisition	2,059,524	46.57
Forfeited	(722,212 )	43.58
Vested	(2,861,253)	38.60
Nonvested shares at March 31, 2017	6,419,456	42.06
Granted	1,267,536	77.26
Forfeited	(279,051 )	49.65
Vested	(1,735,501)	38.00
Nonvested shares at March 31, 2018	5,672,440	\$ 50.79

The total intrinsic value of RSUs which vested during the years ended March 31, 2018, 2017 and 2016 was \$146.0 million, \$166.1 million and \$72.1 million, respectively. The aggregate intrinsic value of RSUs outstanding at March 31, 2018 was \$518.2 million, calculated based on the closing price of the Company's common stock of \$91.36 per share on March 31, 2018. At March 31, 2018, the weighted average remaining expense recognition period was 1.96 years.

Stock option and stock appreciation right (SAR) activity under the Company's stock incentive plans in the three years ended March 31, 2018 is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at March 31, 2015	684,299	\$ 28.41
Granted	244	41.09
Assumed upon acquisition	604,900	35.03
Exercised	(221,987)	25.30
Forfeited or expired	(153,948)	31.52
Outstanding at March 31, 2016	913,508	33.00
Exercised	(437,906)	34.34
Forfeited or expired	(42,485 )	34.26
Outstanding at March 31, 2017	433,117	31.51
Exercised	(131,666)	31.75
Forfeited or expired	(17,111 )	34.73
Outstanding at March 31, 2018	284,340	\$ 31.21

The total intrinsic value of options and SARs exercised during the years ended March 31, 2018, 2017 and 2016 was \$7.4 million, \$9.6 million and \$4.7 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each equity award.

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The aggregate intrinsic value of options and SARs outstanding at March 31, 2018 was \$17.1 million. The aggregate intrinsic value of options and SARS exercisable at March 31, 2018 was \$13.8 million. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of \$91.36 per share on March 29, 2018.

As of March 31, 2018 and March 31, 2017, the number of option and SAR shares exercisable was 224,022 and 264,061, respectively, and the weighted average exercise price per share was \$29.96 and \$29.59, respectively.

The weighted average fair values per share of stock options granted in the year ended March 31, 2016 was \$8.85. The fair values per share of stock options granted in the year ended March 31, 2016 were estimated utilizing the following assumptions:

	Year Ended March 31, 2016
Expected term (in years)	6.5
Volatility	29.50 %
Risk-free interest rate	1.54 %
Dividend yield	3.00 %

There were no stock options granted in the years ended March 31, 2018 and March 31, 2017.

## Note 16. Commitments

The Company leases office space and transportation and other equipment under operating leases which expire at various dates through December 31, 2022. The future minimum lease commitments under these operating leases at March 31, 2018 were as follows (amounts in millions):

Year Ending March 31,	Amount
2019	\$ 26.0
2020	18.7
2021	13.3
2022	10.2
2023	1.7
Thereafter	—
Total minimum payments	\$ 69.9

The terms of the leases do not contain significant restriction provisions and usually contain standard rent escalation clauses as well as options for renewal. Rental expense under operating leases totaled \$30.0 million, \$35.4 million and \$23.3 million for fiscal 2018, 2017 and 2016, respectively.

Commitments for construction or purchase of property, plant and equipment totaled \$144.4 million as of March 31, 2018, all of which will be due within the next year. Other purchase obligations and commitments totaled approximately \$101.6 million of outstanding purchase commitments with the Company's wafer foundries for delivery in fiscal 2019.

## Note 17. Geographic and Segment Information

The Company's reporting segments include 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 revenues and gross profit for each segment (amounts in millions):

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	Years ended March 31,					
	2018		2017		2016	
	Net Sales	Gross Profit	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$3,876.0	\$2,315.9	\$3,316.6	\$1,666.0	\$2,084.2	\$1,116.4
Technology licensing	104.8	104.8	91.2	91.2	89.1	89.1
Total	\$3,980.8	\$2,420.7	\$3,407.8	\$1,757.2	\$2,173.3	\$1,205.5

The Company sells its products to distributors and original equipment manufacturers (OEMs) in a broad range of market segments, performs on-going credit evaluations of its customers and, as deemed necessary, may require collateral, primarily letters of credit. The Company's operations outside the U.S. consist of product assembly and final test facilities in Thailand, and sales and support centers and design centers in certain foreign countries. Domestic operations are responsible for the design, development and wafer fabrication of products, as well as the coordination of production planning and shipping to meet worldwide customer commitments. The Company's Thailand assembly and test facility is reimbursed in relation to value added with respect to assembly and test operations and other functions performed, and certain foreign sales offices receive compensation for sales within their territory. Accordingly, for financial statement purposes, it is not meaningful to segregate sales or operating profits for the assembly and test and foreign sales office operations. Identifiable long-lived assets (consisting of property, plant and equipment net of accumulated amortization) by geographic area are as follows (amounts in millions):

	March 31,	
	2018	2017
United States	\$393.3	\$388.5
Thailand	215.5	178.0
Various other countries	159.1	116.8
Total long-lived assets	\$767.9	\$683.3

Sales to unaffiliated customers located outside the U.S., primarily in Asia and Europe, aggregated approximately 85% of consolidated net sales for fiscal 2018 and 84% for each of fiscal 2017 and 2016. Sales to customers in Europe represented approximately 24% of consolidated net sales for each of fiscal 2018 and 2017, and approximately 22% of consolidated net sales for fiscal 2016. Sales to customers in Asia represented approximately 58% of consolidated net sales for each of fiscal 2018 and 2017, and approximately 59% of consolidated net sales for fiscal 2016. Within Asia, sales into China, including Hong Kong, represented approximately 30%, 32% and 30% of consolidated net sales for fiscal 2018, 2017 and 2016, respectively. Sales into Taiwan represented approximately 11%, 9% and 12% of consolidated net sales for fiscal 2018, 2017 and 2016, respectively. Sales into any other individual foreign country did not exceed 10% of the Company's net sales for any of the three years presented.

No single end customer or distributor accounted for 10% or more of the Company's net sales during fiscal 2018, 2017 or 2016.

## Note 18. Derivative Instruments

## Freestanding Derivative Forward Contracts

The Company has international operations and is thus subject to foreign currency rate fluctuations. Approximately 99% of the Company's sales are U.S. Dollar denominated. However, a significant amount of the Company's expenses and liabilities are denominated in foreign currencies and subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Net gains due to foreign exchange rate fluctuations after the effects of hedging

activity were \$9.3 million, \$1.0 million, and \$0.7 million in fiscal 2018, 2017 and 2016. As of March 31, 2018 and 2017, the Company had no foreign currency forward contracts outstanding. The Company recognized net realized gains on foreign currency forward contracts of \$4.2 million in the year ended March 31, 2018, compared to net losses of \$2.3 million in 2017 and an immaterial amount in 2016. Gains and losses from changes in the fair value of these foreign currency forward contracts and foreign currency exchange rate fluctuations are credited or charged to other income (expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

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## Commodity Price Risk

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

## 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.

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% 2015 Senior Debt 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 March 31, 2015 was \$431.3 million, representing 25% of the principal amount of the 2015 Senior Debt.

In February 2016, the Company terminated its interest rate swap agreements. Upon termination, the contracts were in an asset position, resulting in cash receipts of approximately \$25.7 million, which included \$3.7 million of accrued interest. The gain from terminating the interest rate swap agreements increased the outstanding balance of the 2015 Senior Debt and is being amortized as a reduction of interest expense over the remaining life of the debt. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statements of cash flows.

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 year ended March 31, 2016. The difference represents hedge ineffectiveness (amounts in millions):

	Year ended March 31, 2016	
	Gain (Loss)	Gain (Loss)
Income Statement Classification	on 2015 Senior Debt	on Interest Rate Swap
Other (loss) income, net	\$(18.1)	\$ 16.3

Note 19. Net Income Per Common Share From Continuing Operations Attributable to Microchip Technology Stockholders



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

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	Year Ended March 31,		
	2018	2017	2016
Net income from continuing operations attributable to Microchip Technology Stockholders	\$255.4	\$170.6	\$324.1
Weighted average common shares outstanding	232.9	217.2	203.4
Dilutive effect of stock options and RSUs	4.4	4.4	3.3
Dilutive effect of 2007 Junior Debt	1.3	12.7	10.7
Dilutive effect of 2015 Senior Debt	10.3	0.5	—
Dilutive effect of 2017 Senior Debt	—	—	—
Dilutive effect of 2017 Junior Debt	—	—	—
Weighted average common and potential common shares outstanding	248.9	234.8	217.4
Basic net income per common share from continuing operations attributable to Microchip stockholders	\$1.10	\$0.79	\$1.59
Diluted net income per common share from continuing operations attributable to Microchip stockholders	\$1.03	\$0.73	\$1.49

The Company computed basic net income per common share from continuing operations attributable to its stockholders using net income from continuing operations available to common stockholders and the weighted average number of common shares outstanding during the period. The Company computed diluted net income per common share from continuing operations attributable to its stockholders using net income from continuing operations available to common 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. Weighted average common shares exclude the effect of option shares which are not dilutive. There were no anti-dilutive option shares for the years ended March 31, 2018 and March 31, 2017. For the year ended March 31, 2016, the number of option shares that were antidilutive was 0.3 million.

Diluted net income per common share from continuing operations attributable to stockholders for fiscal 2018, 2017, and 2016 includes 1.3 million, 12.7 million and 10.7 million shares, respectively, issuable upon the exchange of the Company's 2007 Junior Debt. The Company's 2007 Junior Debt was fully settled as of December 31, 2017 (see Note 11 for details on the settlement of convertible debt), with the Company issuing an aggregate of 3.7 million shares in the settlement of \$143.8 million principal amount in fiscal 2018 and an aggregate of 12.0 million shares in the settlement of \$431.3 million principal amount in fiscal 2017. The shares that were issued are included in the weighted average dilutive common shares outstanding through the date of the issuance and were reflected in the weighted average common shares outstanding thereafter. Diluted net income per common share from continuing operations attributable to stockholders for fiscal 2018 and 2017 includes 10.3 million shares and 0.5 million shares, respectively, issuable upon the exchange of the Company's 2015 Senior Debt. The convertible debt has no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The following is the weighted average conversion price per share used in calculating the dilutive effect (See Note 11 for details on the convertible debt):

	Year Ended March 31,		
	2018	2017	2016
2007 Junior Debt <sup>(1)</sup>	\$23.59	\$24.01	\$24.73
2015 Senior Debt	\$63.94	\$65.21	\$67.19

2017 Senior Debt \$99.71 \$100.58 \$—

2017 Junior Debt \$97.96 \$98.81 \$—

<sup>(1)</sup> No longer outstanding as of December 31, 2018.

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## Note 20. Quarterly Results (Unaudited)

The following table presents the Company's selected unaudited quarterly operating results for the eight quarters ended March 31, 2018. The Company believes that all adjustments of a normal recurring nature have been made to present fairly the related quarterly results (in millions, except per share amounts. Amounts may not add to the total due to rounding):

Fiscal 2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$972.1	\$1,012.1	\$994.2	\$1,002.3	\$3,980.8
Gross profit	584.4	614.1	607.1	615.1	2,420.7
Operating income	221.6	225.4	245.2	244.1	936.3
Net income (loss) attributable to Microchip Technology	170.6	189.2	(251.1 )	146.7	255.4
Diluted net income (loss) per common share attributable to Microchip Technology stockholders	0.70	0.77	(1.07 )	0.58	1.03
Fiscal 2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$799.4	\$871.4	\$834.4	\$902.7	\$3,407.8
Gross profit	348.5	410.6	465.3	532.8	1,757.2
Operating income (loss)	(59.1 )	62.8	118.1	154.1	275.8
Net income (loss) attributable to Microchip Technology	(113.4 )	33.9	107.2	136.9	164.6
Diluted net income (loss) per common share attributable to Microchip Technology stockholders	(0.53 )	0.14	0.46	0.57	0.71

Refer to Note 10, Income Taxes, for an explanation of the one-time transition tax recognized in the third quarter of fiscal 2018. Refer to Note 3, Special Charges and Other, Net, for an explanation of the special charges included in operating income in fiscal 2018 and fiscal 2017. Refer to Note 11, Debt and Credit Facility, for an explanation of the loss on settlement of convertible debt included in net income (loss) of \$13.8 million and \$2.2 million for the first quarter and third quarter of fiscal 2018, respectively, and \$43.9 million during the fourth quarter of fiscal 2017. Refer to Note 4, Investments, for an explanation of the impairment recognized on available-for-sale securities in the fourth quarter of fiscal 2018. No material net realized gains or losses occurred in fiscal 2017.

## Note 21. Supplemental Financial Information

Cash paid for income taxes amounted to \$25.9 million, \$48.4 million and \$25.4 million during fiscal 2018, 2017 and 2016, respectively. Cash paid for interest on borrowings amounted to \$85.3 million in fiscal 2018, \$82.5 million in fiscal 2017 and \$52.9 million in fiscal 2016.

A summary of additions and deductions related to the valuation allowance for deferred tax asset accounts for the years ended March 31, 2018, 2017 and 2016 follows (amounts in millions):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Valuation allowance for deferred tax assets:					
Fiscal 2018	\$ 210.1	\$ 36.2	\$ —	—\$ (41.8 )	\$ 204.5
Fiscal 2017	161.8	15.2	37.6	(4.5 )	210.1
Fiscal 2016	116.5	5.5	47.8	(8.0 )	161.8



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A summary of additions and deductions related to the allowance for doubtful accounts for the years ended March 31, 2018, 2017 and 2016 follows (amounts in millions):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions ( <sup>(1)</sup> )	Balance at End of Year
Allowance for doubtful accounts:				
Fiscal 2018	\$ 2.1	\$ 0.2	\$ (0.1 )	\$ 2.2
Fiscal 2017	\$ 2.5	\$ 0.2	\$ (0.6 )	\$ 2.1
Fiscal 2016	\$ 2.6	\$ 0.1	\$ (0.2 )	\$ 2.5

(<sup>1</sup>) Deductions represent uncollectible accounts written off, net of recoveries.

## Accumulated Other Comprehensive Income

The following tables present the changes in the components of accumulated other comprehensive income (AOCI) for the years ended March 31, 2018 and March 31, 2017:

	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2017	\$ 0.3	\$ (5.3 )	\$ (9.4 )	\$(14.4)
Other comprehensive loss before reclassifications	(13.6 )	(5.6 )	—	(19.2 )
Amounts reclassified from accumulated other comprehensive income (loss)	15.2	0.8	—	16.0
Net other comprehensive income (loss)	1.6	(4.8 )	—	(3.2 )
Balance at March 31, 2018	\$ 1.9	\$ (10.1 )	\$ (9.4 )	\$(17.6)

	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2016	\$ 0.3	\$ —	\$ (3.7 )	\$(3.4 )
Other comprehensive loss before reclassifications	(1.5 )	(5.3 )	(5.7 )	(12.5 )
Amounts reclassified from accumulated other comprehensive income (loss)	1.5	—	—	1.5
Net other comprehensive loss	—	(5.3 )	(5.7 )	(11.0 )
Balance at March 31, 2017	\$ 0.3	\$ (5.3 )	\$ (9.4 )	\$(14.4)

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

Description of AOCI Component	Year ended March 31,			Related Statement of Income Line
	2018	2017	2016	
Unrealized (losses) gains on available-for-sale securities	\$(15.5)	\$(1.5)	\$10.9	Other income, net
Amortization of actuarial loss	(0.8 )	—	—	Other income, net
Taxes	0.3	—	—	Provision for income taxes
Reclassification of realized transactions, net of taxes	\$(16.0)	\$(1.5)	\$10.9	Net Income

## Note 22. Dividends

On October 28, 2002, the Company announced that its Board of Directors had approved and instituted a quarterly cash dividend on its common stock. The Company has continued to pay quarterly dividends and has increased the amount of such dividends on a regular basis. Cash dividends paid per share were \$1.449, \$1.441 and \$1.433 during fiscal 2018, 2017 and 2016, respectively. Total dividend payments amounted to \$337.5 million, \$315.4 million and \$291.1 million during fiscal 2018, 2017 and 2016, respectively.

## Note 23. Subsequent Events

## Merger Agreement

On March 1, 2018, the Company entered into a definitive agreement to acquire Microsemi for \$68.78 per share in cash. The acquisition price represents a total equity value of approximately \$8.35 billion, and a total enterprise value of about \$10.15 billion, after accounting for Microsemi's cash and investments, net of debt, on its balance sheet at December 2017. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace & defense, communications, data center and industrial markets. Microsemi is headquartered in Aliso Viejo, California, and has approximately 4,800 employees globally.

The Board of Directors of each of Microchip and Microsemi have unanimously approved the Merger and the Merger Agreement. The completion of the merger is subject to obtaining regulatory approvals and certain other closing conditions, including approval by Microsemi stockholders. Assuming the timely receipt of the regulatory approvals and the satisfaction of the other closing conditions, Microchip anticipates that the merger will be completed in late May/early June 2018.

The Merger Agreement contains customary representations, warranties and covenants of Microchip, Microsemi, and Merger Sub, including among others, (i) covenants by Microsemi concerning the conduct of its business in the ordinary course consistent with past practice during the interim period between the execution of the Merger Agreement and the consummation of the Merger, (ii) a covenant by Microsemi that, subject to certain exceptions, the Board of Directors of Microsemi will recommend to its stockholders adoption of the Merger Agreement, and (iii) a covenant that Microsemi will not solicit, initiate or knowingly encourage, facilitate or induce the making, submission or announcement of an Acquisition Proposal (as defined in the Merger Agreement) or the making of any inquiry, offer or proposal that would reasonably be expected to lead to an Acquisition Proposal. The Merger Agreement contains certain termination rights for both Microchip and Microsemi and further provides that upon termination of the Merger Agreement under specified circumstances (including termination by Microsemi to accept a superior proposal), Microsemi may be required to pay Microchip a termination fee of \$290 million. The Merger Agreement also contains a provision requiring Microsemi to reimburse Microchip for up to \$35 million of its expenses incurred in connection with the Merger if the approval of the Merger by the holders of a majority of the outstanding shares of Microsemi Common Stock is not obtained at a meeting called for that purpose.

Financing of the Merger

On March 1, 2018, in connection with its execution of the Merger Agreement, Microchip entered into a Commitment Letter with JPMorgan, pursuant to which JPMorgan committed to provide to Microchip, among other things, (1) a senior secured term

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loan facility in an aggregate principal amount of up to \$5.0 billion and (2) a 364-day secured bridge facility in an aggregate principal amount of up to \$625.0 million, in each case, subject to the execution of definitive documentation and customary closing conditions. JPMorgan's commitments in respect of the Term Loan Facility will be reduced in the event Microchip raises certain other debt or equity financing.

Microchip estimates that the total amount of funds necessary to complete the acquisition of Microsemi and the other transactions contemplated by the Merger Agreement will be approximately \$10.15 billion to:

- make payments to Microsemi's stockholders of the amounts due to them under the Merger Agreement;
- make payments in respect of Microsemi's outstanding equity-based awards pursuant to the Merger Agreement;
- refinance or otherwise discharge outstanding indebtedness of Microsemi that is required to be refinanced or discharged pursuant to the Merger Agreement, including, without limitation, the termination of commitments and the refinancing of indebtedness under Microsemi's existing credit agreement, and the optional redemption of Microsemi's 9.125% Senior Notes due 2023; and
- pay related fees, expenses and taxes in connection with the foregoing and consummation of the Merger.

Microchip expects to finance the foregoing through a combination of:

- the incurrence of loans under a new term loan facility and other debt financing;
- revolving loans under Microchip's amended and restated credit agreement; and
- Microchip's and Microsemi's cash and cash equivalents on hand at closing.

## Credit Facility Amendment

On May 18, 2018 (the "Effective Date"), the Company entered into an amended and restated credit agreement (the "Amended and Restated Credit Agreement") pursuant to which its existing Amended and Restated Credit Agreement, dated as of June 27, 2013, as amended and restated as of February 4, 2015, and as further amended, restated amended and restated, supplemented or otherwise modified from time to time prior to the Effective Date, by and among the Company, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent, was amended and restated in its entirety.

The Amended and Restated Credit Agreement provides for a revolving loan facility (the "Revolving Loan Facility") in an aggregate principal amount of approximately \$3.8 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 Revolving Loan Facility consists of approximately \$244.3 million of revolving loan commitments (the "2020 Revolving Loans") that terminate on February 4, 2020 (the "2020 Maturity Date") and approximately \$3.6 billion of revolving loan commitments (the "2023 Revolving Loans" and, together with the 2020 Revolving Loans, the "Revolving Loans") that terminate on May 18, 2023 (the "2023 Maturity Date"). The Revolving Loans bear interest, at the Company's option, at (a) in the case of 2020 Revolving Loans, the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate plus a spread of 1.25% to 2.25%, and (b) in the case of 2023 Revolving Loans, the base rate plus a spread of 0.00% to 1.00% or an adjusted LIBOR rate plus a spread of 1.00% to 2.00%, in each case, with such spread being determined based on the consolidated senior leverage ratio for the preceding four fiscal quarter period.

The Amended and Restated Credit Agreement contains customary representations and warranties, affirmative covenants, negative covenants, financial covenants and events of default. The Amended and Restated Credit Agreement is guaranteed by certain of our subsidiaries and secured by certain assets of ours and the guarantor subsidiaries.

Building Purchase

During the quarter ended March 31, 2018, the Company entered into an agreement to purchase one of the buildings it leased in San Jose, California for a purchase price of \$40.8 million with a closing date of April 4, 2018.

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