

MICROCHIP TECHNOLOGY INC
Form 10-Q
August 09, 2013
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013.

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21184

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

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

86-0629024
(IRS Employer Identification No.)

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

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

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

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

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

(Do not check if a smaller reporting company)

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

Yes No

Shares Outstanding of Registrant's Common Stock

Class	Outstanding at July 31, 2013
Common Stock, \$0.001 par value	197,304,762 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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Item 1. Financial Statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

ASSETS

	June 30, 2013	March 31, 2013
Cash and cash equivalents	\$403,231	\$528,334
Short-term investments	558,644	1,050,263
Accounts receivable, net	232,262	229,955
Inventories	256,136	242,334
Prepaid expenses	35,670	37,439
Deferred tax assets	73,080	80,687
Other current assets	56,674	67,358
Total current assets	1,615,697	2,236,370
Property, plant and equipment, net	513,723	514,544
Long-term investments	933,375	257,450
Goodwill	268,547	271,348
Intangible assets, net	504,765	530,136
Other assets	47,468	41,557
Total assets	\$3,883,575	\$3,851,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$77,693	\$75,551
Accrued liabilities	124,154	127,108
Deferred income on shipments to distributors	149,817	138,952
Total current liabilities	351,664	341,611
Junior convertible debentures	365,562	363,385
Long-term line of credit	260,000	620,000
Long-term borrowings, net	348,688	—
Long-term income tax payable	186,588	182,723
Deferred tax liability	379,512	388,250
Other long-term liabilities	37,301	21,966
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; 218,789,994 shares issued and 197,300,452 shares outstanding at June 30, 2013; 218,789,994 shares issued and 196,472,856 shares outstanding at March 31, 2013	197	196
Additional paid-in capital	1,252,987	1,255,627
Common stock held in treasury: 21,489,542 shares at June 30, 2013; 22,317,138 shares at March 31, 2013	(657,640)	(682,220)
Accumulated other comprehensive (loss) income	(3,113)) 6,935
Retained earnings	1,361,829	1,352,932
Total stockholders' equity	1,954,260	1,933,470
Total liabilities and stockholders' equity	\$3,883,575	\$3,851,405

See accompanying notes to condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		
	June 30,		
	2013	2012	
Net sales	\$462,792	\$352,134	
Cost of sales (1)	196,218	147,337	
Gross profit	266,574	204,797	
Operating expenses:			
Research and development (1)	73,085	48,826	
Selling, general and administrative (1)	65,710	55,592	
Amortization of acquired intangible assets	27,677	4,046	
Special charges	1,701	—	
	168,173	108,464	
Operating income	98,401	96,333	
Losses on equity method investments	(260) (121)
Other income (expense):			
Interest income	3,925	4,332	
Interest expense	(11,856) (9,148)
Other income (expense), net	126	(532)
Income before income taxes	90,336	90,864	
Income tax provision	11,757	12,154	
Net income	\$78,579	\$78,710	
Basic net income per common share	\$0.40	\$0.41	
Diluted net income per common share	\$0.37	\$0.39	
Dividends declared per common share	\$0.3535	\$0.3500	
Basic common shares outstanding	196,950	193,452	
Diluted common shares outstanding	212,266	203,700	
(1) Includes share-based compensation expense as follows:			
Cost of sales	\$1,969	\$1,310	
Research and development	5,690	4,032	
Selling, general and administrative	4,997	4,644	

See accompanying notes to condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended	
	June 30,	
	2013	2012
Net income	\$78,579	\$78,710
Components of other comprehensive loss:		
Available-for-sale securities:		
Unrealized holding losses, net of tax effect of (\$508) and \$4	(10,098) (279
Reclassification of recognized transactions, net of tax effect of \$0 and (\$51)	50	141
Other comprehensive loss, net of taxes	(10,048) (138
Total comprehensive income	\$68,531	\$78,572

See accompanying notes to condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	June 30,	2012
	2013	
Cash flows from operating activities:		
Net income	\$78,579	\$78,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,410	25,245
Deferred income taxes	5,298	2,927
Share-based compensation expense related to equity incentive plans	12,656	9,986
Excess tax benefit from share-based compensation	—	(20)
Convertible debt derivatives - revaluation and amortization	16	330
Amortization of debt discount on convertible debentures	2,161	1,975
Amortization of debt issuance costs	327	54
Losses on equity method investments	260	121
Special charge	1,392	—
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,462)	(2,814)
(Increase) decrease in inventories	(13,957)	316)
Increase in deferred income on shipments to distributors	10,865	2,084
Increase in accounts payable and accrued liabilities	3,909	4,766
Change in other assets and liabilities	14,977	5,291
Net cash provided by operating activities	164,431	128,971
Cash flows from investing activities:		
Purchases of available-for-sale investments	(376,460)	(29,130)
Sales and maturities of available-for-sale investments	182,614	139,439
Business acquisitions, net of cash acquired	(2,174)	(20,556)
Investments in other assets	(1,616)	(1,609)
Proceeds from sale of assets	16,200	50
Capital expenditures	(27,757)	(10,304)
Net cash (used in) provided by investing activities	(209,193)	77,890)
Cash flows from financing activities:		
Repayments of revolving loan under previous credit facility	(650,000)	—
Proceeds from borrowings on revolving loan under previous credit facility	30,000	—
Proceeds from borrowings on revolving loan under new credit facility	260,000	—
Proceeds from issuance of long-term borrowings	350,000	—
Deferred financing costs	(7,515)	—
Payment of cash dividend	(69,682)	(67,749)
Proceeds from sale of common stock	6,900	4,961
Capital lease payments	(44)	—
Excess tax benefit from share-based compensation	—	20
Net cash used in financing activities	(80,341)	(62,768)
Net (decrease) increase in cash and cash equivalents	(125,103)	144,093)
Cash and cash equivalents at beginning of period	528,334	635,755

Cash and cash equivalents at end of period	\$403,231	\$779,848
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See accompanying notes to condensed consolidated financial statements

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

(1)Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013. The results of operations for the three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014 or for any other period.

(2)Business Acquisitions

Acquisition of SMSC

On August 2, 2012, the Company acquired SMSC, a publicly traded company based in Hauppauge, New York. The acquisition was accounted for under the acquisition method of accounting. The Company retained an independent third-party appraiser to assist management in its valuation. The table below represents the allocation of the purchase price, including adjustments to the purchase price allocation from the previously reported figures at March 31, 2013, to the net assets acquired based on their estimated fair values as of August 2, 2012 (amounts in thousands):

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Assets acquired	Previously Reported March 31, 2013	Adjustments	June 30, 2013	
Cash and cash equivalents	\$180,925	\$—	\$180,925	
Accounts receivable, net	58,441	—	58,441	
Inventories	86,244	—	86,244	
Prepaid expenses	5,617	—	5,617	
Deferred tax assets	15,843	—	15,843	
Other current assets	17,578	—	17,578	
Property, plant and equipment, net	35,608	—	35,608	
Long-term investments	24,275	—	24,275	
Goodwill	169,065	(3,473) 165,592	
Intangible assets, net	10,214	—	10,214	
Purchased intangible assets	517,800	—	517,800	
Other assets	3,835	—	3,835	
Total assets acquired	1,125,445	(3,473) 1,121,972	
 Liabilities assumed				
Accounts payable	(28,035) —	(28,035)
Accrued liabilities	(62,038) (209) (62,247)
Deferred income on shipments to distributors	(11,376) —	(11,376)