MICROCHIP TECHNOLOGY INC
Form 10-Q
February 07, 2018

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

FORM 10-Q

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

For the quarterly period ended December 31, 2017.
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 0-21184

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

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

(Do not check if a smaller reporting 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). (Check One)
Yes o No x

Shares Outstanding of Registrant's Common Stock

Class	Outstanding at January 31, 2018
Common Stock, $0.001 par value	234,343,061 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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

Item1. Financial Statements

ASSETS	December 31, 2017	March 31, 2017
Cash and cash equivalents	$ 672,079	$ 908,684
Short-term investments	427,514	394,088
Accounts receivable, net	553,135	478,373
Inventories	487,065	417,202
Prepaid expenses	60,117	41,354
Assets held for sale	—	6,459
Other current assets	53,531	58,880
Total current assets	2,253,441	2,305,040
Property, plant and equipment, net	754,780	683,338
Long-term investments	885,392	107,457
Goodwill	2,299,009	2,299,009
Intangible assets, net	1,784,568	2,148,092
Long-term deferred tax assets	70,793	68,870
Other assets	75,810	75,075
Total assets	$ 8,123,793	$ 7,686,881
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 162,718	$ 149,233
Accrued liabilities	258,409	212,450
Deferred income on shipments to distributors	335,705	292,815
Current portion of long-term debt	—	49,952
Total current liabilities	756,832	704,450
Long-term debt	3,039,623	2,900,524
Long-term income tax payable	694,777	184,945
Long-term deferred tax liability	208,823	409,045
Other long-term liabilities	238,663	217,206
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; 253,232,881 shares issued and 234,340,716 shares outstanding at December 31, 2017; 249,463,733 shares issued and 229,093,658 shares outstanding at March 31, 2017	234	229
Additional paid-in capital	2,556,274	2,537,344
Common stock held in treasury: 18,892,165 shares at December 31, 2017; 20,370,075 shares at March 31, 2017	(684,937)	(731,884)
Accumulated other comprehensive loss	(22,193)	(14,378)
Retained earnings	1,335,697	1,479,400
Total stockholders' equity	3,185,075	3,270,711
Total liabilities and stockholders' equity	$ 8,123,793	$ 7,686,881

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$994,205	$834,366	$2,978,485	$2,505,141
Cost of sales (1)	387,146	369,107	1,172,893	1,280,771
Gross profit	607,059	465,259	1,805,592	1,224,370
Research and development (1)	131,555	132,433	395,656	418,111
Selling, general and administrative (1)	109,059	111,017	337,620	388,651
Amortization of acquired intangible assets	121,003	82,791	362,761	243,356
Special charges and other, net	196	20,944	17,312	52,522
Operating expenses	361,813	347,185	1,113,349	1,102,640
Operating income	245,246	118,074	692,243	121,730
Losses on equity method investment	(56)	(55)	(167)	(167)
Other income (expense):				
Interest income	6,306	501	14,441	1,765
Interest expense	(49,744)	(35,143)	(148,693)	(104,685)
Loss on settlement of convertible debt	(2,140)	—	(15,966)	—
Other (loss) income, net	(2,962)	121	7,233	(658)
Income before income taxes	196,650	83,498	549,091	17,985
Income tax provision (benefit)	447,736	(23,837)	440,434	(15,699)
Net (loss) income from continuing operations	(251,086)	107,335	108,657	33,684
Discontinued operations:				
Loss from discontinued operations	—	(191)	—	(7,514)
Income tax benefit	—	(31)	—	(1,561)
Net loss from discontinued operations	—	(160)	—	(5,953)
Net (loss) income	$(251,086)	$107,175	$108,657	$27,731
Basic net (loss) income per common share				
Net (loss) income from continuing operations	$(1.07)	$0.50	$0.47	$0.16
Net loss from discontinued operations	—	—	—	(0.03)
Net (loss) income	$(1.07)	$0.50	$0.47	$0.13
Diluted net (loss) income per common share				
Net (loss) income from continuing operations	$(1.07)	$0.46	$0.44	$0.14
Net loss from discontinued operations	—	—	—	(0.02)
Net (loss) income	$(1.07)	$0.46	$0.44	$0.12
Dividends declared per common share	$0.3625	$0.3605	$1.0860	$1.0800
Basic common shares outstanding	234,106	216,210	232,278	215,360
Diluted common shares outstanding	234,106	235,424	248,024	233,351
(1) Includes share-based compensation expense as follows:				
Cost of sales	$3,494	$3,468	$10,587	$15,465
Research and development	10,921	9,881	31,797	37,569

Selling, general and administrative	9,588	8,771	27,637	53,055

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net (loss) income	$(251,086)	$107,175	$108,657	$27,731
Components of other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding losses, net of tax effect	(5,807)	(254)	(6,161)	(1,983)
Reclassification of realized transactions, net of tax effect	—	1,433	—	1,522
Defined benefit plans:				
Actuarial gains (losses) related to defined benefit pension plans, net of tax benefit (provision) of $2,017, ($2,539), $3,402 and $1,206, respectively	1,212	6,998	(2,284)	(1,332)
Reclassification of realized transactions, net of tax effect	214	—	630	—
Change in net foreign currency translation adjustment	—	(3,109)	—	(5,678)
Other comprehensive (loss) income, net of tax effect	(4,381)	5,068	(7,815)	(7,471)
Comprehensive (loss) income	$(255,467)	$112,243	$100,842	$20,260

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	$108,657	$27,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	459,032	340,925
Deferred income taxes	67,555	(52,215)
Share-based compensation expense related to equity incentive plans	70,021	106,089
Loss on settlement of convertible debt	15,966	—
Amortization of debt discount on convertible debt	79,017	36,907
Amortization of debt issuance costs	4,952	3,182
Losses on equity method investments	167	167
Gains on sale of assets	(5,421)	(78)
Losses on write-down of fixed assets	60	1,278
Impairment of intangible assets	252	10,226
Realized losses on available-for-sale investment	—	89
Realized gains on equity method investment	—	(468)
Impairment of available-for-sale investment	—	1,433
Amortization of premium on available-for-sale investments	531	5
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Increase in accounts receivable	(74,762)	(43,551)
(Increase) decrease in inventories	(70,183)	220,674
Increase in deferred income on shipments to distributors	42,890	110,827
Increase (decrease) in accounts payable and accrued liabilities	41,782	(22,261)
Change in other assets and liabilities	15,663	(18,780)
Change in income tax payable	303,903	5,364
Operating cash flows related to discontinued operations	—	9,348
Net cash provided by operating activities	1,060,082	736,892
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,338,140)	(35,147)
Maturities of available-for-sale investments	520,086	350
Sales of available-for-sale investments	—	470,215
Sale of equity method investment	—	468
Acquisition of Atmel, net of cash acquired	—	(2,747,516)
Investments in other assets	(5,384)	(9,597)
Proceeds from sale of assets	10,289	23,069
Capital expenditures	(148,412)	(52,338)
Net cash used in investing activities	(961,561)	(2,350,496)
Cash flows from financing activities: [1]		
Payments on settlement of convertible debt	(73,421)	—
Repayments of revolving loan under credit facility	(187,000)	(1,078,500)
Proceeds from borrowings on revolving loan under credit facility	187,000	1,517,000
Deferred financing costs	(1,208)	—
Payment of cash dividends	(252,360)	(232,847)

Proceeds from sale of common stock	26,576	28,893
Tax payments related to shares withheld for vested restricted stock units	(34,126)	(48,161)
Capital lease payments	(587)	(587)
Net cash (used in) provided by financing activities	(335,126)	185,798
Effect of foreign exchange rate changes on cash and cash equivalents	—	(1,007)
Net decrease in cash and cash equivalents	(236,605)	(1,428,813)
Cash and cash equivalents at beginning of period	908,684	2,092,751
Cash and cash equivalents at end of period	$672,079	$663,938

Schedule of significant non-cash financing activity:

(1) During the nine months ended December 31, 2017, 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 13 Debt and Credit Facility for further discussion.

See accompanying notes to condensed consolidated financial statements

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Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its majority-owned and controlled subsidiaries (the Company). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017. The results of operations for the nine months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018 or for any other period.

Note 2. Recently Issued Accounting Pronouncements

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.

In March 2017, the Financial Accounting Standards Board (FASB) issued 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. During the three months ended June 30, 2017, the Company elected to early adopt ASU 2017-07 and the adoption of this standard did not have a material impact on its financial statements.

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.

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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.

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 does not expect this standard to have a material impact 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 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 a cumulative-effect reduction to retained earnings.

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 requires 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 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 will supersede nearly all existing revenue recognition guidance under US GAAP. In July 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 will be effective for the Company beginning no later than 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

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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. 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. After adoption, the effect of the new standard on the Company's future consolidated financial statements will depend on the relative percentage of sales through distributors; the level of and changes in the amount of inventory held by distributors; the individual products and product types held in inventory by distributors; and the Company's ability to accurately estimate pricing variability at the time of sale to the distributor. The Company will adopt the standard under the modified retrospective method.

Note 3. 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 $653.1 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.

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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 thousands).

Assets acquired	
Cash and cash equivalents	$230,266
Accounts receivable	141,359
Inventories	335,163
Prepaid expenses and other current assets	28,360
Assets held for sale	32,006
Property, plant and equipment	129,884
Goodwill	1,286,371
Purchased intangible assets	1,888,392
Long-term deferred tax assets	46,700
Other assets	7,535
Total assets acquired	4,126,036
Liabilities assumed	
Accounts payable	(55,686)
Other current liabilities	(120,955)
Long-term line of credit	(192,000)
Deferred tax liabilities	(27,552)
Long-term income tax payable	(115,177)
Other long-term liabilities	(141,688)
Total liabilities assumed	(653,058)
Purchase price allocated	$3,472,978

Purchased Intangible Assets	Weighted Average Useful Life	
	(in years)	(in thousands)
Core and developed technology	11	$1,074,987
In-process research and development	—	140,700
Customer-related	6	630,600
Backlog	1	40,300
Other	5	1,805
Total purchased intangible assets		$1,888,392

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.

Note 4. 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 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 condensed 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 for the three and nine months ended December 31, 2017. The results of discontinued operations for the three and nine months ended December 31, 2016 are as follows (amounts in thousands):

	December 31, 2016	
	Three Months Ended	Nine Months Ended
Net sales	$923	$18,334
Cost of sales	478	15,841
Operating expenses	1,279	10,650
Gain on Sale	643	643
Income tax benefit	(31)	(1,561)
Net loss from discontinued operations	$(160)	$(5,953)

Note 5. Special Charges and Other, Net

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Restructuring				
Employee separation costs	$90	$6,525	$1,477	$35,346
Gain on sale of assets	—	—	(4,447)	—
Impairment charges	99	8,084	199	10,045

Contract exit costs	(97)	4,954	20,057	5,294
Other	104	1,381	26	1,837
Total	$196	$20,944	$17,312	$52,522

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

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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, the Company is not able to estimate the total amount of expected employee separation or exit costs that it will incur in connection with its restructuring activities.

The Company's restructuring expenses during fiscal 2017 were related to the Company's 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; however, 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.

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company incurred $52.6 million in costs since the start of fiscal 2015 in connection with employee separation activities, of which $0.1 million and $1.5 million was incurred during the three and nine months ended December 31, 2017, respectively, and $6.5 million and $35.3 million was incurred during the during the three and nine months ended December 31, 2016, respectively. These employee separation activities are now substantially complete and any future amounts are not expected to be material. The Company has incurred $64.8 million in costs in connection with contract exit activities since the start of fiscal 2015 which includes income of $0.1 million and costs of $20.1 million for the three and nine months ended December 31, 2017, respectively, and $5.0 million and $5.3 million was incurred for the three and nine months ended December 31, 2016, respectively. These acquisition-related contract exit activities are now substantially complete and any future amounts are not expected to be material.

In the three months ended September 30, 2017, the Company recognized a $19.5 million charge for fees associated with transitioning from the public utility provider in Oregon to a lower cost direct access provider. The fee will be paid monthly starting in calendar year 2018 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.

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 condensed consolidated financial statements.

The impairment losses in the nine months ended December 31, 2016 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 from April 1, 2017 to December 31, 2017 (amounts in thousands):

	Employee Separation	Exit Costs	Total

	Costs		
Balance at April 1, 2017 - Restructuring Accrual	$ 5,474	$34,751	$40,225
Charges	1,477	20,057	21,534
Payments	(4,755)	(7,090)	(11,845)
Non-cash - Other	(287)	869	582
Foreign exchange gains	272	—	272
Balance at December 31, 2017 - Restructuring Accrual	$ 2,181	$48,587	$50,768
Current			$14,042
Non-current			36,726
Total			$50,768

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The restructuring liability of $50.8 million is included in accrued liabilities and other long-term liabilities on the Company's condensed consolidated balance sheet as of December 31, 2017.

Note 6. Segment Information

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

The following table represents net sales and gross profit for each segment for the three and nine months ended December 31, 2017 (amounts in thousands):

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2017	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$966,678	$579,532	$2,900,145	$1,727,252
Technology licensing	27,527	27,527	78,340	78,340
Total	$994,205	$607,059	$2,978,485	$1,805,592

The following table represents net sales and gross profit for each segment for the three and nine months ended December 31, 2016 (amounts in thousands):

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$810,532	$441,425	$2,437,049	$1,156,278
Technology licensing	23,834	23,834	68,092	68,092
Total	$834,366	$465,259	$2,505,141	$1,224,370

Note 7. 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 December 31, 2017 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$815,940	$ —	$ (5,809)	$810,131
Municipal bonds - taxable	10,000	—	(57)	9,943
Corporate bonds and debt	491,851	—	(1,484)	490,367
Marketable equity securities	707	1,758	—	2,465
Total	$1,318,498	$ 1,758	$ (7,350)	$1,312,906

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

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$227,089	$ 3	$ (227)	$226,865
Municipal bonds - tax-exempt	55,289	—	(10)	55,279
Municipal bonds - taxable	10,000	43	—	10,043
Corporate bonds and debt	207,888	53	(169)	207,772
Marketable equity securities	707	879	—	1,586
Total	$500,973	$ 978	$ (406)	$501,545

At December 31, 2017, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $427.5 million and long-term investments of $885.4 million. At March 31, 2017, the Company's available-for-sale securities are presented on the condensed consolidated balance sheets as short-term investments of $394.1 million and long-term investments of $107.5 million.

The Company had no proceeds from sales of available-for-sale investments during the nine months ended December 31, 2017. The Company sold available-for-sale investments for proceeds of $470.2 million during the nine months ended December 31, 2016 to finance a portion of the purchase price of its Atmel acquisition which closed on April 4, 2016. No available-for-sale investments were sold during the three months ended December 31, 2016. The Company had no material realized gains from the sale of available-for-sale securities during the three and nine months ended December 31, 2017 and 2016. 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 operations.

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

	December 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	$790,325	$ (5,615)	$19,806	$ (194)	$810,131	$ (5,809)
Municipal bonds - taxable	9,943	(57)	—	—	9,943	(57)
Corporate bonds and debt	447,061	(1,484)	—	—	447,061	(1,484)
Total	$1,247,329	$ (7,156)	$19,806	$ (194)	$1,267,135	$ (7,350)

	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	$196,875	$ (227)	$ —	$ —	$196,875	$ (227)

Municipal bonds - tax exempt	55,279	(10)	—	—	55,279	(10)
Corporate bonds and debt	132,820	(169)	—	—	132,820	(169)
Total	$384,974	$ (406)	$ —	$ —	$384,974	$ (406)

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Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of December 31, 2017 and the Company's intent is to hold these investments until these assets are no longer impaired.

The amortized cost and estimated fair value of the available-for-sale securities at December 31, 2017, by contractual maturity, excluding marketable equity securities of $2.5 million, which have no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	$425,436	$ —	$ (387)	$425,049
Due after one year and through five years	892,355	—	(6,963)	885,392
Due after five years and through ten years	—	—	—	—
Total	$1,317,791	$ —	$ (7,350)	$1,310,441

Note 8. 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 December 31, 2017 are as follows (amounts in thousands):

	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	$ 108,204	$—	$108,204
Deposit accounts	—	563,875	563,875
Short-term investments:			
Marketable equity securities	2,465	—	2,465
Corporate bonds and debt	—	288,224	288,224
Government agency bonds	—	136,825	136,825
Long-term investments:			
Corporate bonds and debt	—	202,143	202,143
Government agency bonds	—	673,306	673,306
Municipal bonds - taxable	—	9,943	9,943
Total assets measured at fair value	$ 110,669	$1,874,316	$1,984,985

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

	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	$ 343,815	$—	$343,815
Deposit accounts	—	564,869	564,869
Short-term investments:			
Marketable equity securities	1,586	—	1,586
Corporate bonds and debt	—	165,207	165,207
Government agency bonds	—	161,973	161,973
Municipal bonds - tax-exempt	—	55,279	55,279
Municipal bonds - taxable	—	10,043	10,043
Long-term investments:			
Corporate bonds and debt	—	42,565	42,565
Government agency bonds	—	64,892	64,892
Total assets measured at fair value	$ 345,401	$1,064,828	$1,410,229

There were no transfers between Level 1 and Level 2 during the three and nine months ended December 31, 2017 or the fiscal year ended March 31, 2017. There were no assets measured at fair value on a recurring basis classified as Level 3 at December 31, 2017 or March 31, 2017.

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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 each of the three and nine-month periods ended December 31, 2017 and December 31, 2016. These investments are included in other assets on the condensed consolidated balance sheet.

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 9. 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 December 31, 2017 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 December 31, 2017 and March 31, 2017 (amounts in thousands). As of December 31, 2017 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 $35.2 million and $38.3 million, respectively.

	December 31, 2017		March 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2017 Senior Debt	$1,424,169	$2,436,742	$1,384,914	$2,106,225
2015 Senior Debt	$1,297,605	$2,952,993	$1,261,787	$2,481,708
2017 Junior Debt	$324,528	$814,329	$262,298	$586,609
2007 Junior Debt	$—	$—	$49,952	$445,142

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Note 10. Other Financial Statement Details

Accounts Receivable

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

	December 31, 2017	March 31, 2017
Trade accounts receivable	$ 547,572	$ 473,238
Other	7,682	7,219
Total accounts receivable, gross	555,254	480,457
Less allowance for doubtful accounts	2,119	2,084
Total accounts receivable, net	$ 553,135	$ 478,373

Inventories

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

	December 31, 2017	March 31, 2017
Raw materials	$ 22,488	$ 14,430
Work in process	309,811	268,281
Finished goods	154,766	134,491
Total inventories	$ 487,065	$ 417,202

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 thousands):

	December 31, 2017	March 31, 2017
Land	$ 73,447	$ 73,447
Building and building improvements	506,037	499,668
Machinery and equipment	1,911,200	1,774,920
Projects in process	115,006	104,318
Total property, plant and equipment, gross	2,605,690	2,452,353
Less accumulated depreciation and amortization	1,850,910	1,769,015
Total property, plant and equipment, net	$ 754,780	$ 683,338

Depreciation expense attributed to property, plant and equipment was $32.0 million and $90.9 million for the three and nine months ended December 31, 2017, respectively, compared to $29.7 million and $90.3 million for the three and nine months ended December 31, 2016, respectively.

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Note 11. Intangible Assets and Goodwill

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

	December 31, 2017		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$1,936,956	$ (587,415)	$1,349,541
Customer-related	716,945	(312,851)	404,094
Trademarks and trade names	11,700	(11,185)	515
In-process research and development	29,379	—	29,379
Distribution rights	5,578	(5,379)	199
Other	1,449	(609)	840
Total	$2,702,007	$ (917,439)	$1,784,568

	March 31, 2017		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$1,932,329	$ (419,468)	$1,512,861
Customer-related	716,945	(123,616)	593,329
Trademarks and trade names	11,700	(9,636)	2,064
In-process research and development	38,511	—	38,511
Distribution rights	5,578	(5,346)	232
Other	1,449	(354)	1,095
Total	$2,706,512	$ (558,420)	$2,148,092

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the nine months ended December 31, 2017, $8.9 million of in-process research and development reached technological feasibility and was reclassified as core and developed technology and began being amortized over its estimated useful life. The following is an expected amortization schedule for the intangible assets for the remainder of fiscal 2018 through fiscal 2022, absent any future acquisitions or impairment charges (amounts in thousands):

Fiscal Year Ending March 31,	Projected Amortization Expense
2018	$122,252
2019	361,682
2020	313,484
2021	257,430
2022	190,429

Amortization expense attributed to intangible assets was $122.6 million and $368.1 million for the three and nine months ended December 31, 2017, respectively. Amortization expense attributed to intangible assets was $85.2 million and $250.6 million for the three and nine months ended December 31, 2016, respectively. In the three and nine months ended December 31, 2017, approximately $1.5 million and $4.9 million of amortization expense, respectively, was charged to cost of sales, and approximately $121.1 million and $363.2 million, respectively, was charged to operating expenses. In the three and nine months ended December 31, 2016, approximately $0.9 million and $2.8 million of amortization expense, respectively, was charged to cost of sales, and approximately $84.3 million and $247.8 million, respectively, was charged to operating expenses. The Company recognized an immaterial amount of intangible asset impairment charges in the three and nine months ended December 31, 2017. In connection with its acquisition of Atmel, the Company recognized intangible asset impairment charges of $8.2 million and $10.2 million for the three and nine months ended December 31, 2016, respectively. 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.

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The following shows the goodwill balance as of December 31, 2017 and March 31, 2017 by segment (amounts in thousands):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Goodwill	$ 2,279,809	$ 19,200

At March 31, 2017, 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 December 31, 2017, the Company has never recorded an impairment charge against its goodwill balance.

Note 12. Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. The Company had an effective tax rate of 227.7% for the three months ended December 31, 2017 and a negative effective tax rate of 28.5% for the three months ended December 31, 2016. The Company had an effective tax rate of 80.2% for the nine months ended December 31, 2017 and a negative effective tax rate of 87.3% for the nine months ended December 31, 2016.

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%. The change in the statutory tax rate from 35.0% to 31.5% for the Company's fiscal 2018 does not have a significant impact on the Company's effective tax rate.

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 has 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 December 31, 2017, the Company made a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. The Company recognized a provisional amount of $443.2 million, which decreased diluted net income per common share by $1.79 for the nine months ended December 31, 2017, and which was included as a component of income tax expense from continuing operations. The Company will continue to refine 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 expense of $627.7 million. In addition, the Company released the deferred tax liabilities related to non-permanently reinvested E&P, resulting in a decrease in income tax expense of $5.5 million. The net increase to tax expense is $622.2 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. In addition, 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, fourth quarter activities, and further 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.

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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 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 $142.6 million. The Company's actual income tax benefit may vary materially from the provisional amount because the final analysis will be based on balances as of March 31, 2018.

Due to the Act, the Company released its valuation allowance on foreign tax credits during the three months ended December 31, 2017. 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.

The Company's effective tax rate for the three and nine months ended December 31, 2017 is higher compared to the prior year primarily due to the one-time transition tax net of the reversal of the related deferred tax liabilities. The Company's effective tax rate is different than statutory rates in the U.S. due primarily to the one-time transition tax net of the reversal of the related deferred tax liabilities, as well as its mix of earnings in foreign jurisdictions with lower tax rates as well as numerous tax holidays it receives related to its Thailand manufacturing operations based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future, however, the Company actively seeks to obtain new tax holidays. The Company does not expect the future expiration of any of its tax holiday periods in Thailand to have a material impact on its effected tax rate. The material components of foreign income taxed at a rate lower than the U.S. are earnings accrued in Thailand and Ireland, and earnings accrued by the Company's offshore technology company which is resident in the Cayman Islands.

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.

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

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

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Note 13. Debt and Credit Facility

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

	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance [1]	December 31, 2017	March 31, 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 [2]				(1,399.8)	(1,516.5)
Less: Debt issuance costs [3]				(41.9)	(46.8)
Net long-term debt including current maturities				3,039.6	2,950.5
Less: Current maturities [4]				—	(50.0)
Net long-term debt				$3,039.6	$2,900.5

[1] 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.

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

	December 31, 2017	March 31, 2017
2017 Senior Debt	$(629.3)	$(667.5)
2015 Senior Debt	(412.1)	(446.6)
2017 Junior Debt	(358.4)	(309.3)
2007 Junior Debt	—	(93.1)

Total unamortized discount $(1,399.8) $(1,516.5)

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

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	December 31, 2017	March 31, 2017
Senior Credit Facility	$ (6.7)	$ (8.5)
2017 Senior Debt	(16.5)	(17.6)
2015 Senior Debt	(15.3)	(16.6)
2017 Junior Debt	(3.4)	(3.4)
2007 Junior Debt	—	(0.7)
Total debt issuance costs	$ (41.9)	$ (46.8)

(4) Current maturities include 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: