

MICROCHIP TECHNOLOGY INC
Form 10-Q
August 10, 2009

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, 2009.

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 such filing requirements for the past 90 days.

Yes No

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" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(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, 2009
Common Stock, \$0.001 par value	182,951,234 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)

ASSETS

	June 30, 2009 (Unaudited)	As adjusted March 31, 2009 (Note 1, 2)
Cash and cash equivalents	\$ 576,979	\$ 446,329
Short-term investments	830,456	943,616
Accounts receivable, net	98,044	88,525
Inventories	113,872	131,510
Prepaid expenses	11,864	11,447
Deferred tax assets	71,039	75,681
Other current assets	58,887	51,736
Total current assets	1,761,141	1,748,844
Property, plant and equipment, net	513,765	531,687
Long-term investments	30,729	50,826
Goodwill	36,165	36,165
Intangible assets, net	25,639	25,718
Other assets	18,970	18,526
Total assets	\$ 2,386,409	\$ 2,411,766

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	\$ 28,885	\$ 29,228
Accrued liabilities	36,875	42,486
Deferred income on shipments to distributors	83,431	83,931
Total current liabilities	149,191	155,645
Junior convertible debentures	335,539	334,184
Long-term income tax payable	72,737	70,051
Deferred tax liability	367,788	365,734
Other long-term liabilities	3,946	3,834
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 182,933,167 shares outstanding at June 30, 2009; 218,789,994 shares issued and 182,769,124 shares outstanding at March 31, 2009	183	183

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Additional paid-in capital	1,278,212	1,273,876
Retained earnings	1,264,693	1,299,317
Accumulated other comprehensive income	4,282	4,312
Common stock held in treasury: 35,856,827 shares at June 30, 2009; 36,020,870 shares at March 31, 2009	(1,090,162)	(1,095,370)
Total stockholders' equity	1,457,208	1,482,318
Total liabilities and stockholders' equity	\$2,386,409	\$2,411,766

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, As adjusted (Note 2)	
	2009	2008
Net sales	\$ 192,949	\$ 268,172
Cost of sales (1)	96,514	104,575
Gross profit	96,435	163,597
Operating expenses:		
Research and development (1)	27,636	31,552
Selling, general and administrative (1)	36,383	45,413
Special charge	1,238	---
	65,257	76,965
Operating income	31,178	86,632
Other income (expense):		
Interest income	3,302	10,199
Interest expense	(7,519)	(7,642)
Other, net	5,694	2,745
Income before income taxes	32,655	91,934
Income tax provision	5,287	16,387
Net income	\$ 27,368	\$ 75,547
Basic net income per common share	\$ 0.15	\$ 0.41
Diluted net income per common share	\$ 0.15	\$ 0.40
Dividends declared per common share	\$ 0.339	\$ 0.330
Basic common shares outstanding	182,856	184,663
Diluted common shares outstanding	185,526	191,049
(1) Includes share-based compensation expense as follows:		
Cost of sales	\$ 1,710	\$ 1,625
Research and development	2,989	2,435
Selling, general and administrative	4,299	3,639

See accompanying notes to condensed consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended June 30, As adjusted (Note 2)	
	2009	2008
Cash flows from operating activities:		
Net income	\$27,368	\$75,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,659	23,766
Deferred income taxes	7,239	3,410
Share-based compensation expense related to equity incentive plans	8,998	7,699
Tax benefit from equity incentive plans	(68)	5,928
Excess tax benefit from share-based compensation	---	(5,178)
Convertible debt derivatives - revaluation and amortization	(153)	99
Amortization of convertible debenture issuance costs	192	192
Gain on sale of assets	---	(94)
Special charge	1,238	---
Purchases/sales of trading securities	55,215	(1,021)
Gain on trading securities	(5,485)	(1,417)
Unrealized impairment loss on available-for-sale investments	1,266	894
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(9,519)	2,566
Decrease (increase) in inventories	17,704	(1,537)
(Decrease) increase in deferred income on shipments to distributors	(500)	1,684
(Decrease) increase in accounts payable and accrued liabilities	(7,192)	1,756
Change in other assets and liabilities	(3,895)	8,799
Net cash provided by operating activities	115,067	123,093
Cash flows from investing activities:		
Purchases of available-for-sale investments	(133,279)	(3,500)
Sales and maturities of available-for-sale investments	214,967	165,135
Investment in other assets	(902)	(237)
Proceeds from sale of assets	---	109
Capital expenditures	(3,756)	(21,747)
Net cash provided by investing activities	77,030	139,760
Cash flows from financing activities:		
Payment of cash dividend	(61,991)	(60,977)
Repurchase of common stock	---	(23,637)
Proceeds from sale of common stock	544	14,422
Excess tax benefit from share-based compensation	---	5,178
Net cash used in financing activities	(61,447)	(65,014)
Net increase in cash and cash equivalents	130,650	197,839

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Cash and cash equivalents at beginning of period	446,329	487,736
Cash and cash equivalents at end of period	\$576,979	\$685,575

See accompanying notes to condensed consolidated financial statements

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. We own 100% of the outstanding stock in all of our 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). In the opinion of management, all adjustments of a normal recurring nature which are necessary for a fair presentation have been included. 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, 2009. The results of operations for the three months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010 or for any other period.

Subsequent events have been evaluated through August 10, 2009, which is the date the financial statements were issued.

(2) Adopted and Recently Issued Accounting Pronouncements

On April 1, 2009, we adopted the Financial Accounting Standards Board's (FASB) Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1), which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. FSP APB 14-1 requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's convertible debt (unsecured debt) borrowing rate when interest cost is recognized. FSP APB 14-1 requires bifurcation of a component of the debt to be recognized as part of interest expense in our consolidated statements of income.

Once adopted, FSP APB 14-1 requires retrospective application to the terms of instruments as they existed for all periods presented. The adoption of FSP APB 14-1 affects the accounting for our 2.125% junior subordinated convertible debentures issued in December 2007 and due in December 2037. The retrospective application of this pronouncement affects our fiscal years 2008 and 2009.

The following table sets forth the effect of the retrospective application of FSP APB 14-1 on certain previously reported line items (in thousands, except per share data):

Condensed Consolidated Statements of Income:

	Three Months Ended June 30, 2008	
	As Reported	As Adjusted
Interest expense	\$ (6,401)	\$ (7,642)
Income tax provision	\$ 16,865	\$ 16,387
Net income	\$ 76,310	\$ 75,547

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Basic net income per common share	\$ 0.41	\$ 0.41
Diluted net income per common share	\$ 0.40	\$ 0.40

Condensed Consolidated Balance Sheet:

	March 31, 2009	
	As Reported	As Adjusted
Deferred tax assets	\$ 69,626	\$ 75,681
Total current assets	\$ 1,742,789	\$ 1,748,844
Other assets	\$ 34,254	\$ 18,526
Total assets	\$ 2,421,439	\$ 2,411,766
Junior convertible debentures	\$ 1,149,184	\$ 334,184
Deferred tax liability	\$ 51,959	\$ 365,734
Additional paid-in capital	\$ 778,204	\$ 1,273,876
Retained earnings	\$ 1,303,437	\$ 1,299,317
Total stockholders' equity	\$ 990,766	\$ 1,482,318
Total liabilities and stockholders' equity	\$ 2,421,439	\$ 2,411,766

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141R-1). FSP FAS 141R-1 amends and clarifies SFAS No. 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS No. 141R and FSP FAS 141R-1 were adopted by the Company on April 1, 2009. Because the majority of the provisions of SFAS No. 141R and FSP FAS 141R-1 are applicable to future transactions, the adoption of SFAS No. 141R and FSP FAS 141R-1 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 was adopted by the Company on April 1, 2009. The adoption of SFAS No. 160 did not have an impact on the Company's consolidated financial statements.

In June 2008, the EITF issued EITF 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock (EITF No. 07-05). EITF No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. EITF No. 07-05 was adopted by the Company on April 1, 2009. The adoption of EITF No. 07-05 did not have an impact upon the Company's consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, Accounting for Defensive Intangible Assets (EITF No. 08-7). EITF No. 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF No. 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets must be recognized at fair value in accordance with SFAS No. 141(R) and SFAS No. 157. EITF No. 08-7 was adopted by the Company on April 1, 2009. Because EITF No. 08-7 is applicable to future transactions, the adoption of EITF No. 08-7 did not have an impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2). This FSP changes existing guidance for determining whether an impairment of debt securities is other than temporary. FSP FAS 115-2 requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it will not more likely than not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting FSP FAS 115-2, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. The Company adopted FSP FAS 115-2 on April 1, 2009. The Company does not meet the conditions necessary to recognize the noncredit loss component of its auction rate securities in other comprehensive income. Accordingly, the Company did not reclassify any previously recognized other-than-temporary impairment losses from retained earnings to accumulated other comprehensive income and the adoption of FSP FAS 115-2 and FAS 124-2 had no impact on the Company's condensed consolidated financial statements. Refer to Note 4 for further discussion of the Company's investments in marketable securities.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which deferred the effective date for the Company to April 1, 2009 for all nonfinancial assets and liabilities, except for those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). The Company adopted the deferred provisions of SFAS 157 on April 1, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly. The Company adopted FSP FAS 157-4 on April 1, 2009. The adoption of FSP FAS 157-4 had no impact upon the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosure about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The Company adopted FSP FAS 107-1 and APB 28-1 on April 1, 2009. The adoption of FSP FAS 107-1 and APB 28-1 had no effect on the Company's consolidated balance sheets or statements of income or cash flows.

In May 2009, the FASB issued Statement No. 165, Subsequent Events (SFAS 165), which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of SFAS 165 for the quarter ended June 30, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements. See Note 1 for additional discussion of the Company's evaluation of subsequent events.

(3) Special Charge

During the three months ended June 30, 2009, the Company agreed to the terms of a patent license with an unrelated third-party and signed an agreement on July 9, 2009. The patent license settled alleged infringement claims. The total payment made to the third-party in July 2009 was \$1.4 million, \$1.2 million of which was expensed in the first quarter of fiscal 2010 and the remaining \$0.2 million was recorded as a prepaid royalty that will be amortized over the remaining life of the patent, which expires in June 2010.

(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 and trading securities at June 30, 2009 (amounts in thousands):

	Adjusted Cost	Available-for-sale Securities		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Government agency bonds	\$ 400,431	\$ 1,425	\$ 9	\$ 401,847
Municipal bonds	345,883	4,722	---	350,605
Auction rate securities	17,636	---	---	17,636
Corporate bonds	20,000	---	22	19,978
	\$ 783,950	\$ 6,147	\$ 31	\$ 790,066

	Adjusted Cost	Trading Securities		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Marketable equity securities	\$ 26,908	\$ 2,912	\$ 1	\$ 29,819
Restricted cash	9,425	---	---	9,425
Auction rate securities	28,101	---	---	28,101
Put option on auction rate securities	3,774	---	---	3,774
	\$ 68,208	\$ 2,912	\$ 1	\$ 71,119

At June 30, 2009, the Company's available-for-sale and trading securities are presented on the condensed consolidated balance sheets as short-term investments of \$830.5 million and long-term investments of \$30.7 million.

The \$29.8 million in marketable equity securities listed above relates to strategic investments in publicly traded companies. The Company has classified the shares owned in these companies as trading securities. During the three months ended June 30, 2009, the Company recognized a gain in earnings of \$4.7 million on these trading securities. The Company had a net realized loss of \$3.8 million on trading securities that it sold in the three months ended June 30, 2009. The Company also has cash on deposit of \$9.4 million, held by a broker as cash collateral for put options the Company has written on one of its trading securities. This amount is shown as restricted cash in the

table above. The Company recorded the cash value received at the date the puts were written within other current liabilities. The Company records the change in the fair value of the puts in other income, net at each balance sheet date. At June 30, 2009, the fair value of the puts of \$1.0 million was recorded in other current liabilities. These put options expire in January 2010. If the price of the common stock underlying the puts falls below the strike price of the puts, the Company may need to make an additional investment at the designated strike price of the puts.

At June 30, 2009, \$45.7 million of the fair value of the Company's investment portfolio was invested in auction rate securities (ARS). With the continuing liquidity issues in the global credit and capital markets, the Company's ARS have experienced multiple failed auctions. In September 2007 and February 2008, auctions for \$24.9 million and \$34.8 million, respectively, of the original purchase value of the Company's investments in ARS first failed. While the Company continues to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for these ARS no longer approximates the original purchase value.

At June 30, 2009, the \$24.9 million of ARS that failed during September 2007 carried ratings between A- and B by Standard & Poors compared to ratings between A and B at March 31, 2009. All but \$2.5 million of the securities possess credit enhancement in the form of insurance for principal and interest. The underlying characteristics of \$22.4 million of these ARS relate to servicing statutory requirements in the life insurance industry and \$2.5 million relate to a specialty finance company. Subsequent to the Company's investment in these ARS, the issuers of the securities have been downgraded by ratings agencies. All rating change actions have been factored into the fair value estimates for the period ending June 30, 2009.

The \$24.9 million in failed auctions have continued to fail through the filing date of this report. As a result, the Company will not be able to access such funds until a future auction on these investments is successful. The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on market conditions. The Company evaluated the impairments in the value of these ARS, determining its intent to sell these securities prior to the recovery of its amortized cost basis resulted in the securities being other-than-temporarily impaired and has recognized an impairment charge on these investments of \$1.3 million in the quarter ended June 30, 2009 and an aggregate of \$6.0 million in fiscal years 2009 and 2008.

The \$34.8 million of ARS that failed during February 2008 are investments in student loan-backed ARS. Approximately \$0.1 million and \$2.9 million of these ARS were redeemed at par by the issuers in the quarter ended June 30, 2009 and in fiscal 2009, respectively, reducing the Company's overall position to \$31.9 million. Based upon the Company's evaluation of available information, it believes these investments are of high credit quality, as all of the investments carry AAA credit ratings by one or more of the major credit rating agencies and are largely backed by the federal government (Federal Family Education Loan Program). The fair value of the failed ARS has been estimated based on market information and estimates determined by management and could change significantly based on market conditions.

In November 2008, the Company executed an ARS rights agreement (the Rights) with the broker through which the Company purchased the \$31.9 million in ARS that provides (1) the Company with the right to put these ARS back to the broker at par anytime during the period from June 30, 2010 through July 2, 2012, and (2) the broker with the right to purchase or sell the ARS at par on the Company's behalf anytime through July 2, 2012. The Company accounted for the acceptance of the Rights as the receipt of a put option for no consideration and recognized a gain with a corresponding recognition as a long-term investment. Upon first recognizing the Rights, the Company elected to measure the Rights under the fair value option of SFAS No. 159 and will record changes in the fair value of the Rights in earnings, as the Rights do not provide for net settlement and therefore are not otherwise marked to fair value as derivatives. The Company simultaneously recognized an other-than-temporary impairment loss on the student loan ARS of \$5.5 million as the Company no longer intends to hold the ARS until the fair value recovers, which was recorded in other comprehensive loss in prior quarters. The Company reclassified the ARS from available-for-sale to trading securities and future changes in fair value are being recorded in earnings. During the first quarter of fiscal 2010, the Company estimated the fair value of the ARS increased by \$0.2 million offset by a change in the fair value of the related Rights of \$0.2 million, with no net impact to its income statement. The Company expects any future changes in the fair value of the ARS to be largely offset by changes in the fair value of the related Rights without any significant net impact to the Company's income statement. The Company will continue to measure the ARS and the Rights at fair value (utilizing Level 3 inputs) until the earlier of its maturity or exercise.

The Company intends to sell the \$24.9 million of ARS. The Company intends and has the ability to hold the \$31.9 million of ARS until the market recovers or until June 30, 2010 when it has the right to sell the ARS at par to the broker as it does not anticipate having to sell these securities to fund the operations of its business. The Company believes that, based on its current unrestricted cash, cash equivalents and short-term investment balances, the current lack of liquidity in the credit and capital markets will not have a material impact on its liquidity, cash flow or ability to fund its operations.

At June 30, 2009, the Company evaluated its investment portfolio and noted unrealized losses of \$0.03 million which were due to fluctuations in interest rates and credit market conditions. Management does not believe any of the unrealized losses represent other-than-temporary impairment based on its evaluation of available evidence as of June 30, 2009. The Company's intent is to hold these investments until these assets are no longer impaired. For those investments not scheduled to mature until after June 30, 2010, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments.

The amortized cost and estimated fair value of the available-for-sale securities at June 30, 2009, by 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	\$439,476	\$3,187	\$22	\$442,641
Due after one year and through five years	326,838	2,960	9	329,789
Due after five years and through ten years	---	---	---	---
Due after ten years	17,636	---	---	17,636
	\$783,950	\$6,147	\$31	\$790,066

During the quarter ended June 30, 2009, the Company had realized no gains or losses from sales of available-for-sale securities.

(5) Fair Value Measurements

The Company adopted SFAS No. 157 on April 1, 2008. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies 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, SFAS No. 157 establishes 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.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2009 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Money market fund deposits	\$ 383,811	\$---	\$ ---	\$383,811
Deposit accounts	---	202,592	---	202,592
Government agency bonds	---	401,847	---	401,847
Municipal bonds	---	350,605	---	350,605
Auction rate securities	---	---	45,737	45,737
Put option on auction rate securities	---	---	3,774	3,774
Corporate bonds	---	19,978	---	19,978
Marketable securities	29,819	---	---	29,819
Total assets measured at fair value	\$ 413,630	\$975,022	\$ 49,511	\$1,438,163
Liabilities				
Put options on publicly traded common stock	\$ 958	\$---	\$ ---	\$958
Total liabilities measured at fair value	\$ 958	\$---	\$ ---	\$958

For Level 3 valuations, the Company estimated the fair value of its ARS based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The Company estimated the value of the put option on the ARS by evaluating the estimated cash flows before and after the receipt of the put option, discounted at rates reflecting the likelihood of default and lack of liquidity, or in the case of the payment of the par value to be paid by the broker at exercise of the put option, the counterparty credit risk. The estimated fair values that are categorized as Level 3 as well as the marketable securities and put options on publicly traded public stock could change significantly based on future market conditions. Refer to Note 4 for further discussion of the Company's investments in ARS.

The following table presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three months ended June 30, 2009 (amounts in thousands):

	Three Months Ended June 30, 2009
Balance at March 31, 2009	\$ 50,826
Securities redeemed at par	(50)
Impairment losses included in interest income	(1,265)
Balance at June 30, 2009	\$ 49,511

Assets and liabilities measured at fair value on a recurring basis are presented/classified on our condensed consolidated balance sheets at June 30, 2009 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents	\$ 383,811	\$ 193,167	\$ ---	\$ 576,978
Short-term investments	29,819	768,762	31,875	830,456
Long-term investments	---	13,093	17,636	30,729
Total assets measured at fair value	\$ 413,630	\$ 975,022	\$ 49,511	\$ 1,438,163
Liabilities				
Accrued liabilities	\$ 958	\$ ---	\$ ---	\$ 958
Total liabilities measured at fair value	\$ 958	\$ ---	\$ ---	\$ 958

(6) Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. The carrying amount of short-term and long-term investments approximates fair value as the securities are marked to market as of each balance sheet date with any unrealized gains and losses reported in stockholders' equity. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was \$868.3 million at June 30, 2009, based on the trading price of the bonds, compared to the carrying value of \$335.5 million. See Note 11 for additional information regarding the carrying value of the Company's junior subordinated convertible debentures.

(7) Accounts Receivable

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

	June 30, 2009	March 31, 2009
Trade accounts receivable	\$ 100,562	\$ 91,325
Other	685	376
	101,247	91,701
Less allowance for doubtful accounts	3,203	3,176
	\$ 98,044	\$ 88,525

(8) Inventories

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

	June 30,	March 31,
--	----------	-----------

	2009	2009
Raw materials	\$ 3,750	\$ 3,693
Work in process	101,990	114,676
Finished goods	8,132	13,141
	\$ 113,872	\$ 131,510

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.

(9) Property, Plant and Equipment

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

	June 30, 2009	March 31, 2009
Land	\$ 39,671	\$ 39,671
Building and building improvements	334,955	334,717
Machinery and equipment	1,149,741	1,148,588
Projects in process	111,888	114,478
	1,636,255	1,637,454
Less accumulated depreciation and amortization	1,122,490	1,105,767
	\$ 513,765	\$ 531,687

Depreciation expense attributed to property, plant and equipment was \$21.7 million in the three months ended June 30, 2009 and \$23.2 million in the three months ended June 30, 2008.

(10) 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 16.2% for the three-month period ended June 30, 2009 and 18.1% for the three-month period ended June 30, 2008. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates.

At March 31, 2009, the Company had \$70.1 million of unrecognized tax benefits. Unrecognized tax benefits increased by \$2.6 million in the three months ended June 30, 2009 compared to the March 31, 2009 balances as a result of the accrual for uncertain tax positions and the accrual of deficiency interest on these positions.

The Company adopted FSP APB 14-1 in the quarter ended June 30, 2009 as described in Note 2. As a result of the adoption of this pronouncement, the Company recorded a deferred tax liability of \$313.2 million associated with future non-cash interest deductions that will be recorded in the financial statements with no corresponding tax deduction.

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 2002 through fiscal 2004 and fiscal 2006 through fiscal 2009 tax years remain open for examination by tax authorities. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2002.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other 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 maintains adequate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. The U.S. IRS is currently auditing the Company's fiscal years ended March 31, 2002, 2003, 2004, 2006, 2007 and 2008. The Company believes that it has appropriate support for the income tax positions 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 law applied to the facts of each matter.

If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is

determined. Although the timing of the resolution and/or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next 12 months.

(11) 2.125% Junior Subordinated Convertible Debentures

In December 2007, the Company issued \$1.15 billion principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, to two initial purchasers in a private offering. The debentures are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company's subsidiaries. The debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion rate of 29.2783 shares of common stock per \$1,000 principal amount of debentures, representing an initial conversion price of approximately \$34.16 per share of common stock. As of June 30, 2009, none of the conditions allowing holders of the debentures to convert had been met. The conversion rate will be subject to adjustment for certain events as outlined in the indenture governing the debentures, including in the event the Company pays a cash dividend on its common stock, but will not be adjusted for accrued interest. As a result of a cash dividend of \$0.339 per share paid in June 2009, the conversion rate was adjusted to 31.7108 shares of common stock per \$1,000 of principal amount of debentures, representing a conversion price of approximately \$31.53 per share of common stock. The Company received net proceeds of \$1,127.0 million upon its initial sale of the debentures after deduction of issuance costs of \$23.0 million. The debt issuance costs were allocated to the liability and equity components of the debentures, described in further detail below. Based on this allocation, \$6.6 million was recorded in long-term other assets and is being amortized to interest expense over 30 years, and \$16.4 million was recorded as a reduction of additional paid-in capital. Interest is payable in cash semiannually in arrears on June 15 and December 15, beginning on June 15, 2008. Interest expense related to cash payments of interest for the first quarter of fiscal 2010 totaled \$6.1 million and was included in interest expense on the condensed consolidated statements of income. The debentures also have a contingent interest component that will require the Company to pay interest during any semiannual interest period if the average trading price of the debenture is greater or less than certain thresholds beginning with the semi-annual interest period commencing on December 15, 2017 (the maximum amount of contingent interest that will accrue is 0.50% of such average trading price per year) and upon the occurrence of certain events, as outlined in the indenture governing the debentures.

On or after December 15, 2017, the Company may redeem all or part of the debentures for the principal amount plus any accrued and unpaid interest if the closing price of the Company's common stock has been at least 150% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading-day period prior to the date on which the Company provides notice of redemption.

Prior to September 1, 2037, holders of the debentures may convert their debentures only upon the occurrence of certain events, as outlined in the indenture, including, without limitation, during the five business day period after any 10 consecutive trading-day period in which the trading price for a debenture for each day of that 10 consecutive trading-day period was less than 98% of the product of the last reported sale of our common stock and the conversion rate on such day (the conversion value). If holders of the debentures convert their debentures in connection with a fundamental change, as defined in the indenture, the Company will, in certain circumstances, be required to pay a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a fundamental change, the holders of the debentures may require the Company to purchase all or a portion of their debentures at a purchase price equal to 100% of the principal amount of debentures, plus accrued and unpaid interest, if any.

Upon conversion, the Company can satisfy its conversion obligation by delivering cash, shares of common stock or any combination, at the Company's option. The Company intends to satisfy the lesser of the principal amount of the debentures or the conversion value in cash. If the conversion value of a debenture exceeds the principal amount, the Company may also elect to deliver cash in lieu of common stock for the conversion value in excess of one thousand dollars principal amount (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.

The Company concluded the debentures are not conventional convertible debt instruments and that the embedded stock conversion option qualifies as a derivative under SFAS No. 133. In addition, in accordance with Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, the Company has concluded that the embedded conversion option would be classified in stockholders' equity if it were a freestanding instrument. Accordingly, the embedded conversion option is not required to be accounted for separately as a derivative.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are initially recorded at fair value. The carrying value of the equity component at June 30, 2009 and at March 31, 2009 was \$822.4 million. The estimated fair value of the liability component of the debentures at the issuance date was \$327.6 million, resulting in a debt discount of \$822.4 million. The unamortized debt discount was \$813.5 million at June 30, 2009 and \$815.0 million at March 31, 2009. The carrying value of the debentures was \$335.5 million at June 30, 2009 and \$334.2 million at March 31, 2009. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 28.5 years. The Company recognized \$1.5 million and \$1.4 million in non-cash interest expense related to the amortization of the debt discount, as well as \$6.1 million and \$6.1 million of interest expense related to the 2.125% coupon on the debentures in the three months ended June 30, 2009 and 2008, respectively.

Under the terms of a registration rights agreement entered into in connection with the offering of the debentures, the Company filed a shelf registration statement covering resales of the debentures and any common stock issuable upon conversion of the debentures with the SEC. The Company must maintain the effectiveness of the shelf registration statement until all of the debentures and all shares of common stock issuable upon conversion of the debentures cease to be outstanding, have been sold or transferred pursuant to an effective registration statement, have been sold pursuant to Rule 144 under the Securities Act of 1933, as amended, or the period of time specified in Rule 144 for the holding period has passed. If the Company fails to comply with the terms of the registration rights agreement, it will be required to pay additional interest on the debentures at a rate per annum equal to 0.25% for the first 90 days after the date of such failure and 0.50% thereafter.

The Company concluded the embedded features related to the contingent interest payments, the Company making specific types of distributions (e.g., extraordinary dividends), the redemption feature in the event of changes in tax law, and penalty interest in the event of a failure to maintain an effective registration qualify as derivatives and should be bundled as a compound embedded derivative under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). Additionally, the Company concluded the registration rights agreement entered into at the time the Company issued the debt is a separate bifurcated derivative, however, the value of this derivative was deemed to be immaterial, due to the low likelihood the registration would occur. The fair value of the compound embedded derivative at the date of issuance of the debentures was \$1.3 million and is accounted for as a discount on the debentures. The resulting value of the debentures of \$1,148.7 million will be accreted to par value over the term of the debt resulting in \$1.3 million being amortized to interest expense over 30 years. Any change in fair value of this embedded derivative will be included in interest expense on the Company's condensed consolidated statements of income. The fair value of the derivative as of June 30, 2009 was \$0.3 million, compared to the value at March 31, 2009 of \$0.5 million, resulting in a reduction of interest expense in the first three months of fiscal 2010 of \$0.2 million. The balance of the debentures on the Company's condensed consolidated balance sheet at June 30, 2009 of \$335.5 million includes the fair value of the embedded derivative.

(12) Derivative Instruments

The Company has international operations and is thus subject to foreign currency rate fluctuations. To manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its

foreign currency operating expenses. Approximately 99% of the Company's sales are U.S. Dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company's operating results. As of June 30, 2009 and March 31, 2009, the Company had no foreign currency derivatives outstanding. The Company recognized an immaterial amount of net realized gains on foreign currency derivatives in the three months ended June 30, 2009.

(13) Comprehensive Income

Comprehensive income consists of net income offset by net unrealized gains and losses on available-for-sale investments. The components of other comprehensive income and related tax effects were as follows (amounts in thousands):

	Three Months Ended June 30,	
	2009	2008
Change in unrealized gains and losses on investments, net of tax effect of \$543, and \$874, respectively	\$ 30	\$ 3,219

Comprehensive income was \$27.3 million and \$73.1 million for the three months ended June 30, 2009 and June 30, 2008, respectively.

(14) Employee Benefit Plans

Share-Based Compensation Expense

The following table presents details of share-based compensation expense resulting from the application of SFAS No. 123 (revised 2004), Share-Based Payments (SFAS 123R) (amounts in thousands):

	Three Months Ended June 30,	
	2009	2008
Cost of sales	\$ 1,710 (1)	\$ 1,625 (1)
Research and development	2,989	2,435
Selling, general and administrative	4,299	3,639
Pre-tax effect of share-based compensation	8,998	7,699
Income tax benefit	1,170	1,393