MICROCHIP TECHNOLOGY INC
Form 10-Q
August 11, 2014
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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 June 30, 2014.

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21184

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

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

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

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

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

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

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

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

Yes o No x

Shares Outstanding of Registrant's Common Stock

Class	Outstanding at July 31, 2014
Common Stock, $0.001 par value	200,400,918 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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Item1. Financial Statements

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

ASSETS	June 30, 2014	March 31, 2014
Cash and cash equivalents	$617,770	$466,603
Short-term investments	1,142,091	878,182
Accounts receivable, net	286,699	242,405
Inventories	264,505	262,725
Prepaid expenses	34,369	31,756
Deferred tax assets	70,926	67,490
Other current assets	33,991	20,238
Total current assets	2,450,351	1,969,399
Property, plant and equipment, net	569,908	531,967
Long-term investments	527,539	798,712
Goodwill	409,885	276,097
Intangible assets, net	498,079	445,499
Other assets	45,981	45,956
Total assets	$4,501,743	$4,067,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$79,889	$74,050
Accrued liabilities	115,718	96,731
Short-term borrowings	17,500	17,500
Deferred income on shipments to distributors	146,583	147,798
Total current liabilities	359,690	336,079
Junior convertible debentures	374,227	371,873
Long-term line of credit	634,375	300,000
Long-term borrowings, net	327,076	331,385
Long-term income tax payable	144,549	179,966
Deferred tax liability	453,069	375,316
Other long-term liabilities	39,112	37,550
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 200,401,106 shares outstanding at June 30, 2014; 218,789,994 shares issued and 200,002,736 shares outstanding at March 31, 2014	200	200
Additional paid-in capital	1,245,191	1,244,583
Common stock held in treasury: 18,388,888 shares at June 30, 2014; 18,787,258 shares at March 31, 2014	(565,551)	(577,382)
Accumulated other comprehensive income	4,089	1,051
Retained earnings	1,485,716	1,467,009
Total stockholders' equity	2,169,645	2,135,461
Total liabilities and stockholders' equity	$4,501,743	$4,067,630

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,	
	2014	2013
Net sales	$528,876	$462,792
Cost of sales (1)	222,357	196,218
Gross profit	306,519	266,574
Operating expenses:		
Research and development (1)	84,370	73,085
Selling, general and administrative (1)	69,255	65,710
Amortization of acquired intangible assets	36,644	27,677
Special charges	304	1,701
	190,573	168,173
Operating income	115,946	98,401
Losses on equity method investments	(32)	(260)
Other income (expense):		
Interest income	4,742	3,925
Interest expense	(13,678)	(11,856)
Other income, net	13	126
Income before income taxes	106,991	90,336
Income tax provision	17,082	11,757
Net income	$89,909	$78,579
Basic net income per common share	$0.45	$0.40
Diluted net income per common share	$0.40	$0.37
Dividends declared per common share	$0.3555	$0.3535
Basic common shares outstanding	200,187	196,950
Diluted common shares outstanding	224,527	212,266
(1) Includes share-based compensation expense as follows:		
Cost of sales	$2,055	$1,969
Research and development	6,309	5,690
Selling, general and administrative	4,957	4,997

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,	
	2014	2013
Net income	$89,909	$78,579
Components of other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized holding gain (losses), net of tax effect of $12 and $508, respectively	3,060	(10,098)
Reclassification of realized transactions, net of tax effect of $12 and $0, respectively	(22)	50
Other comprehensive income (loss), net of taxes	3,038	(10,048)
Total comprehensive income	$92,947	$68,531

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)

	Three Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$89,909	$78,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,988	50,410
Deferred income taxes	(2,319)	5,298
Share-based compensation expense related to equity incentive plans	13,321	12,656
Excess tax benefit from share-based compensation	—	—
Convertible debt derivatives - revaluation and amortization	(11)	16
Amortization of debt discount on convertible debentures	2,365	2,161
Amortization of debt issuance costs	544	327
Losses on equity method investments	32	260
Impairment of intangible assets	406	—
Amortization of premium on available-for-sale investments	2,589	2,941
Special charge	—	1,392
Changes in operating assets and liabilities:		
Increase in accounts receivable	(37,247)	(2,462)
Decrease (increase) in inventories	24,991	(13,957)
(Decrease) increase in deferred income on shipments to distributors	(1,215)	10,865
(Decrease) increase in accounts payable and accrued liabilities	(4,415)	3,909
Change in other assets and liabilities	15,850	14,977
Net cash provided by operating activities	165,788	167,372
Cash flows from investing activities:		
Purchases of available-for-sale investments	(172,506)	(379,401)
Sales and maturities of available-for-sale investments	321,203	182,614
Acquisition of Supertex, net of cash acquired	(375,365)	—
Other business acquisitions, net of cash acquired	—	(2,174)
Investments in other assets	(1,123)	(1,616)
Proceeds from sale of assets	—	16,200
Capital expenditures	(44,637)	(27,757)
Net cash used in investing activities	(272,428)	(212,134)
Cash flows from financing activities:		
Repayments of revolving loan under previous credit facility	—	(650,000)
Repayments of revolving loan under new credit facility	(170,000)	—
Proceeds from borrowings on revolving loan under previous credit facility	—	30,000
Proceeds from borrowings on revolving loan under new credit facility	504,375	260,000
Proceeds from issuance of long-term borrowings	—	350,000
Repayments of long-term borrowings	(4,375)	—
Deferred financing costs	—	(7,515)
Payment of cash dividends	(71,202)	(69,682)
Proceeds from sale of common stock	4,125	12,614
Tax payments related to shares withheld for vested restricted stock units	(4,968)	(5,714)

Capital lease payments	(148)	(44)
Excess tax benefit from share-based compensation	—	—
Net cash provided by (used in) financing activities	257,807	(80,341)
Net increase (decrease) in cash and cash equivalents	151,167	(125,103)
Cash and cash equivalents at beginning of period	466,603	528,334
Cash and cash equivalents at end of period	$617,770	$403,231

See accompanying notes to condensed consolidated financial statements

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

(1) Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014. The results of operations for the three months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015 or for any other period.

As further discussed in Note 2, on April 1, 2014, the Company completed its acquisition of Supertex Incorporated (Supertex) and the Company's first quarter fiscal 2015 financial results include Supertex's results beginning as of the acquisition date.

(2) Business Acquisitions

Acquisition of Supertex

On April 1, 2014, the Company acquired Supertex, a publicly traded company based in Sunnyvale, California, for $33.00 per share and the exchange of certain share-based payment awards, for a total of $391.8 million. The Company financed the transaction using borrowings under its existing credit agreement. As a result of the acquisition, Supertex became a wholly owned subsidiary of the Company. Supertex is a leader in high voltage analog and mixed signal technologies, with a strong position in the medical, lighting and industrial control markets. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities in these areas by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Supertex have been included in the Company's condensed consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Supertex's net tangible assets and intangible assets based on their estimated fair values as of April 1, 2014. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Supertex acquisition is deductible for tax purposes. The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

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The table below represents the preliminary allocation of the purchase price to the net assets acquired based on their estimated fair values as of April 1, 2014, as well as the associated estimated useful lives of the acquired intangible assets at that date (amounts in thousands):

Assets acquired	April 1, 2014
Cash and cash equivalents	$14,790
Short-term investments	140,984
Accounts receivable, net	7,047
Inventories	27,630
Prepaid expenses	1,493
Deferred tax assets	3,997
Other current assets	16,113
Property, plant and equipment, net	15,679
Goodwill	133,713
Purchased intangible assets	89,600
Other assets	325
Total assets acquired	451,371
Liabilities assumed	
Accounts payable	(8,481)
Accrued liabilities	(19,345)
Long-term income tax payable	(3,796)
Deferred tax liability	(27,972)
Total liabilities assumed	(59,594)
Purchase price allocated	$391,777

The total purchase price allocated of $391.8 million includes approximately $1.6 million of non cash consideration for the exchange of certain share-based payment awards of Supertex for stock awards of the Company. The amount of cash paid by the Company, net of cash and short-term investments acquired from Supertex of approximately $155.8 million, was $234.4 million.

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

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

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Customer-related intangible assets consist of Supertex'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 Supertex's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Supertex's historical customer information. Customer relationships are being amortized in a manner consistent with the estimated cash flows associated with the existing customers and anticipated retention rates. Backlog relates to the value of orders not yet shipped by Supertex at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets are being recognized commensurate with recognition of the revenue for the orders on which the backlog intangible assets were determined. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $22.8 million was established as a net deferred tax liability for the future amortization of the intangible assets.

The amount of Supertex net sales and net loss included in the Company's condensed consolidated statements of income for the period April 1, 2014 to June 30, 2014 was $17.8 million and $17.7 million, respectively.

The following unaudited pro-forma consolidated results of operations for the three months ended June 30, 2014 and 2013 assume the Supertex acquisition occurred as of April 1, 2013. The pro forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2013 or of results that may occur in the future (amounts in thousands):

	Three Months Ended June 30,	
	2014	2013
Net sales	$531,345	$476,521
Net income	105,505	60,964
Basic earnings per share	$0.53	$0.31
Diluted earnings per share	$0.47	$0.29

(3) Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11) to provide guidance on the presentation of unrecognized tax benefits. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for the Company's first quarter of fiscal 2015 with earlier adoption permitted. ASU 2013-11 should be applied prospectively with retroactive application permitted. The Company evaluated the impact of adoption of ASU 2013-11 on its consolidated financial statements and determined that $51.9 million of unrecognized tax benefits can be presented as a reduction to deferred tax assets for net operating loss carryforward and other tax credit carryforwards. There was no income statement impact as a result of adopting this accounting standard.

In May 2014, the FASB issued Accounting Standard Update 2014-09-Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The

Company is carefully evaluating its existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be materially affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard is effective beginning the first quarter of the Company’s 2018 fiscal year. Early adoption is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the transition method that will be elected.

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(4) Special Charges

The Company incurred special charges related to severance, office closing and other costs associated with its acquisition activity of $0.3 million and $1.7 million for the three months ended June 30, 2014 and June 30, 2013, respectively.

(5) Segment Information

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

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

	Three Months Ended June 30, 2014	
	Net Sales	Gross Profit
Semiconductor products	$508,439	$286,082
Technology licensing	20,437	20,437
	$528,876	$306,519

The following table represents net sales and gross profit for each segment for the three months ended June 30, 2013 (amounts in thousands):

	Three Months Ended June 30, 2013	
	Net Sales	Gross Profit
Semiconductor products	$440,274	$244,056
Technology licensing	22,518	22,518
	$462,792	$266,574

(6) Investments

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale securities at June 30, 2014 (amounts in thousands):

	Available-for-sale Securities				
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Government agency bonds	$684,090	$318	$(1,108	)	$683,300
Municipal bonds	41,347	225	(7	)	41,565
Auction rate securities	9,825	—	—		9,825
Corporate bonds and debt	931,858	3,451	(369	)	934,940
	$1,667,120	$3,994	$(1,484	)	$1,669,630

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The following is a summary of available-for-sale securities at March 31, 2014 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$684,451	$114	$(3,171)	$681,394
Municipal bonds	41,622	101	(14)	41,709
Auction rate securities	9,825	—	—	9,825
Corporate bonds and debt	941,524	3,247	(805)	943,966
	$1,677,422	$3,462	$(3,990)	$1,676,894

At June 30, 2014, the Company's available-for-sale debt securities are presented on the condensed consolidated balance sheets as short-term investments of $1,142.1 million and long-term investments of $527.5 million. At March 31, 2014, the Company's available-for-sale debt securities are presented on the condensed consolidated balance sheets as short-term investments of $878.2 million and long-term investments of $798.7 million.

At June 30, 2014, the Company evaluated its investment portfolio and noted unrealized losses of $1.5 million on its debt securities with an aggregated fair value of $519.6 million, which were due primarily to higher interest rates and resulting declines in market prices. Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of June 30, 2014 and the Company's intent is to hold these investments until these assets are no longer impaired, except for certain auction rate securities (ARS). For those debt securities not scheduled to mature until after June 30, 2015, 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, 2014, by contractual maturity, excluding corporate debt of $6.2 million, which has no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	$199,349	$841	$(6)	$200,184
Due after one year and through five years	1,324,320	3,100	(762)	1,326,658
Due after five years and through ten years	127,436	53	(716)	126,773
Due after ten years	9,825	—	—	9,825
	$1,660,930	$3,994	$(1,484)	$1,663,440

The Company had no material realized gains or losses from the sale of available-for-sale marketable equity securities or debt securities during each of the three months ended June 30, 2014 and 2013.

(7) Fair Value Measurements

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

Level 1-	Observable inputs such as quoted prices in active markets;
Level 2-	Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3-	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Marketable Debt Instruments

Marketable debt instruments include instruments such as corporate bonds and debt, government agency bonds, bank deposits, municipal bonds, and money market fund deposits. 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at June 30, 2014 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 mutual funds	$8,051	$—	$—	$8,051
Corporate bonds and debt	—	928,750	6,190	934,940
Government agency bonds	—	683,300	—	683,300
Deposit accounts	—	609,719	—	609,719
Municipal bonds	—	41,565	—	41,565
Auction rate securities	—	—	9,825	9,825
Total assets measured at fair value	$8,051	$2,263,334	$16,015	$2,287,400

Assets measured at fair value on a recurring basis at March 31, 2014 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 mutual funds	$192,159	$—	$—	$192,159
Corporate bonds and debt	—	937,776	6,190	943,966
Government agency bonds	—	681,394	—	681,394
Deposit accounts	—	274,444	—	274,444
Municipal bonds	—	41,709	—	41,709
Auction rate securities	—	—	9,825	9,825

Total assets measured at fair value	$192,159	$1,935,323	$16,015	$2,143,497

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There were no transfers between Level 1 and Level 2 during the three months ended June 30, 2014 or the year ended March 31, 2014.

At June 30, 2014 and at March 31, 2014, the Company's ARS for which recent auctions were unsuccessful are made up of securities related to the insurance industry valued at $9.8 million with a par value of $22.4 million. The Company estimated the fair value of its ARS, which are classified as Level 3 securities, based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The significant unobservable inputs used in the fair value measurement of the insurance sector ARS as of June 30, 2014 were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2% to 2.5% adjusted for the liquidity risk premium which ranged from 9.1% to 29.5%. The anticipated liquidity horizon ranged from 7 to 10 years. A significant increase in the liquidity premium or discount rate, in isolation, would lead to a significantly lower fair value measurement. A significant increase in the liquidity horizon, in isolation, would lead to a significantly lower fair value measurement. Each quarter the Company investigates material changes in the fair value measurements of its ARS.

The following tables present 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 year ended March 31, 2014 (amounts in thousands):

Year ended March 31, 2014	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2013	$33,791	$6,190	$(19,100)	$—
Total gains (losses) (realized and unrealized):				
Included in earnings	1,101	—	(1,370)	(269)
Included in other comprehensive income	(332)	—	—	(332)
Purchases, sales, issuances, and settlements, net	(24,735)	—	20,470	—
Balance at March 31, 2014	$9,825	$6,190	$—	$(601)

Gains and losses recognized in earnings using Level 3 inputs for ARS are credited or charged to Other Income (Expense) on the condensed consolidated statements of income. Gains and losses recognized in earnings using Level 3 inputs related to the revaluation of contingent consideration are credited or charged to Special Charges on the condensed consolidated statements of income.

Assets measured at fair value on a recurring basis are presented/classified on the condensed consolidated balance sheets at June 30, 2014 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	$8,051	$609,719	$—	$617,770
Short-term investments	—	1,142,091	—	1,142,091
Long-term investments	—	511,524	16,015	527,539
Total assets measured at fair value	$8,051	$2,263,334	$16,015	$2,287,400

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Assets measured at fair value on a recurring basis are presented/classified in the condensed consolidated balance sheets at March 31, 2014 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	$192,159	$274,444	$—	$466,603
Short-term investments	—	878,182	—	878,182
Long-term investments	—	782,697	16,015	798,712
Total assets measured at fair value	$192,159	$1,935,323	$16,015	$2,143,497

Financial Assets Not Recorded at Fair Value on a Recurring Basis

The Company's non-marketable equity and cost-method investments are not recorded at fair value on a recurring basis. These investments are monitored on a quarterly basis for impairment charges. The investments will only be recorded at fair value when an impairment charge is recognized. There were no impairment charges recognized on these investments in the three months ended June 30, 2014 and June 30, 2013.

(8) Fair Value of Financial Instruments

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at June 30, 2014 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit and short-term and long-term borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit and long-term borrowings at June 30, 2014 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 7. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was $2.197 billion at June 30, 2014 and $2.138 billion at March 31, 2014 based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as Level 2 securities.

(9) Accounts Receivable

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

	June 30, 2014	March 31, 2014
Trade accounts receivable	$287,415	$243,383
Other	2,300	1,940
	289,715	245,323
Less allowance for doubtful accounts	3,016	2,918
	$286,699	$242,405

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(10) Inventories

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

	June 30, 2014	March 31, 2014
Raw materials	$11,154	$9,734
Work in process	189,419	179,692
Finished goods	63,932	73,299
	$264,505	$262,725

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

(11) Property, Plant and Equipment

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

June