MICROCHIP TECHNOLOGY INC
Form 10-Q
February 06, 2019
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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 December 31, 2018.
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 every Interactive Data File required to be submitted 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 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, 2019
Common Stock, $0.001 par value	236,968,953 shares

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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

Item1. Financial Statements

ASSETS	December 31, 2018	March 31, 2018
Cash and cash equivalents	$ 432.2	$ 901.3
Short-term investments	4.0	1,295.3
Accounts receivable, net	544.8	563.7
Inventories	702.5	476.2
Other current assets	194.1	119.8
Total current assets	1,877.6	3,356.3
Property, plant and equipment, net	1,039.7	767.9
Goodwill	6,782.0	2,299.0
Intangible assets, net	6,632.9	1,662.0
Long-term deferred tax assets	1,717.1	100.2
Other assets	106.4	71.8
Total assets	$ 18,155.7	$ 8,257.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 236.0	$ 144.1
Accrued liabilities	407.7	229.6
Deferred income on shipments to distributors	—	333.8
Current portion of long-term debt	—	1,309.9
Total current liabilities	643.7	2,017.4
Long-term debt	10,542.3	1,758.4
Long-term income tax payable	720.7	754.9
Long-term deferred tax liability	830.5	205.8
Other long-term liabilities	257.4	240.9
Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, $0.001 par value; authorized 450,000,000 shares; 253,232,909 shares issued and 236,963,082 shares outstanding at December 31, 2018; 253,232,909 shares issued and 235,027,767 shares outstanding at March 31, 2018	0.2	0.2
Additional paid-in capital	2,657.3	2,562.5
Common stock held in treasury: 16,269,827 shares at December 31, 2018; 18,205,142 shares at March 31, 2018	(601.8)	(662.6)
Accumulated other comprehensive loss	(17.0)	(17.6)
Retained earnings	3,122.4	1,397.3
Total stockholders' equity	5,161.1	3,279.8
Total liabilities and stockholders' equity	$ 18,155.7	$ 8,257.2

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net sales	$1,374.7	$994.2	$4,019.7	$2,978.5
Cost of sales (1)	595.1	387.1	1,908.8	1,172.9
Gross profit	779.6	607.1	2,110.9	1,805.6
Research and development (1)	217.7	131.6	611.6	395.7
Selling, general and administrative (1)	174.8	109.1	515.5	337.6
Amortization of acquired intangible assets	193.7	121.0	497.2	362.8
Special (income) charges and other, net (1)	(1.3)	0.2	57.0	17.3
Operating expenses	584.9	361.9	1,681.3	1,113.4
Operating income	194.7	245.2	429.6	692.2
Losses on equity method investment	(0.1)	(0.1)	(0.2)	(0.2)
Other income (expense):				
Interest income	0.7	6.3	7.3	14.4
Interest expense	(137.6)	(49.7)	(366.7)	(148.7)
Loss on settlement of debt	(0.2)	(2.1)	(4.3)	(16.0)
Other (loss) income, net	(2.5)	(2.9)	(12.4)	7.4
Income before income taxes	55.0	196.7	53.3	549.1
Income tax provision (benefit)	5.8	447.8	(127.9)	440.4
Net income (loss)	$49.2	$(251.1)	$181.2	$108.7
Basic net income (loss) per common share	$0.21	$(1.07)	$0.77	$0.47
Diluted net income (loss) per common share	$0.20	$(1.07)	$0.73	$0.44
Dividends declared per common share	$0.3645	$0.3625	$1.0920	$1.0860
Basic common shares outstanding	236.7	234.1	235.9	232.3
Diluted common shares outstanding	244.6	234.1	249.5	248.0
(1) Includes share-based compensation expense as follows:				
Cost of sales	$3.4	$3.5	$10.9	$10.6
Research and development	$19.4	$10.9	$53.2	$31.8
Selling, general and administrative	$16.6	$9.6	$46.1	$27.6
Special (income) charges and other, net	$0.2	$—	$17.3	$—

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	$49.2	$(251.1)	$181.2	$108.7
Components of other comprehensive (loss) income:				
Available-for-sale securities:				
Unrealized holding losses, net of tax effect	—	(5.8)	(5.6)	(6.2)
Reclassification of realized transactions, net of tax effect	—	—	5.6	—
Defined benefit plans:				
Actuarial gains (losses) related to defined benefit pension plans, net of tax (provision) benefit	1.0	1.2	4.5	(2.3)
Reclassification of realized transactions, net of tax effect	0.3	0.2	0.8	0.6
Change in net foreign currency translation adjustment	(1.6)	—	(3.0)	—
Other comprehensive (loss) income, net of tax effect	(0.3)	(4.4)	2.3	(7.9)
Comprehensive income (loss)	$48.9	$(255.5)	$183.5	$100.8

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$181.2	$108.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	637.7	459.0
Deferred income taxes	(29.1)	67.6
Share-based compensation expense related to equity incentive plans	127.5	70.0
Loss on settlement of debt	4.3	16.0
Amortization of debt discount	85.2	79.0
Amortization of debt issuance costs	12.1	5.0
Losses on equity method investments	0.2	0.2
Gains on sale of assets	—	(5.4)
Losses on write-down of fixed assets	0.5	0.1
Impairment of intangible assets	3.1	0.3
Losses on available-for-sale investments and marketable equity securities, net	6.8	—
Amortization of premium on available-for-sale investments	(0.2)	0.5
Changes in operating assets and liabilities, excluding impact of acquisitions:		
Decrease (increase) in accounts receivable	189.4	(74.8)
Decrease (increase) in inventories	344.5	(70.2)
Increase in deferred income on shipments to distributors	—	42.9
(Decrease) increase in accounts payable and accrued liabilities	(143.5)	41.8
Change in other assets and liabilities	15.2	15.5
Change in income tax payable	(163.5)	303.9
Net cash provided by operating activities	1,271.4	1,060.1
Cash flows from investing activities:		
Purchases of available-for-sale investments	(167.7)	(1,338.1)
Maturities of available-for-sale investments	75.7	520.0
Sales of available-for-sale investments	1,376.6	—
Acquisition of Microsemi, net of cash acquired	(7,850.6)	—
Investments in other assets	(12.8)	(5.4)
Proceeds from sale of assets	0.2	10.3
Capital expenditures	(188.8)	(148.4)
Net cash used in investing activities	(6,767.4)	(961.6)
Cash flows from financing activities: [(1)]		
Payments on settlement of convertible debt	—	(73.4)
Proceeds from Issuance of 2023 and 2021 Senior Notes	1,989.5	—
Proceeds from borrowings on term loan facility	3,000.0	—
Repayments of term loan facility	(287.0)	—
Proceeds from borrowings on revolving loan under credit facility	3,725.5	187.0
Repayments of revolving loan under credit facility	(983.0)	(187.0)
Repayment of debt assumed in Microsemi acquisition	(2,056.9)	—
Deferred financing costs	(72.7)	(1.2)

Payment of cash dividends	(257.8)	(252.4)
Proceeds from sale of common stock	26.9	26.6
Tax payments related to shares withheld for vested restricted stock units	(57.0)	(34.1)
Capital lease payments	(0.6)	(0.6)
Net cash provided by (used in) financing activities	5,026.9	(335.1)
Net decrease in cash, cash equivalents, and restricted cash	(469.1)	(236.6)
Cash and cash equivalents, and restricted cash at beginning of period [2]	901.3	908.7
Cash and cash equivalents, and restricted cash at end of period [2]	$432.2	$672.1

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 Convertible Debt and 3.2 million shares of common stock in exchange for $111.3 million principal amount of 2007 Junior Convertible Debt. Refer to Note 13 Debt and Credit Facility for further discussion.

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

Schedule of restricted cash:

(2) In the three months ended June 30, 2018, the Company adopted ASU 2016-18 - Statement of Cash Flows: Restricted Cash. The following table presents the balance of restricted cash which consists of cash denominated in a foreign currency and restricted in use due to a foreign taxing authority requirement (in millions):

	As of March 31, 2017	December 31, 2017	March 31, 2018	December 31, 2018
Restricted cash	$ —	$ 40.8	$ 42.1	$ 39.1

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. All dollar amounts in the financial statements and tables in these notes, except per share amounts, are stated in millions of U.S. dollars unless otherwise noted.

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, 2018. As further discussed in Note 3, on May 29, 2018, the Company completed its acquisition of Microsemi Corporation (Microsemi) and the Company's results for the three and nine months ended December 31, 2018 include Microsemi's results beginning as of such acquisition date. The results of operations for the nine months ended December 31, 2018 are not indicative of the results that may be expected for the fiscal year ending March 31, 2019 or for any other period.

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On April 1, 2018, the Company adopted ASU 2014-09-Revenue from Contracts with Customers (Topic 606) and all related amendments (“New Revenue Standard”) using the modified retrospective method. The Company has applied the new revenue standard to all contracts that were entered into after adoption and to all contracts that were open as of the initial date of adoption. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the adoption of the new standard to impact its net sales on an ongoing basis depending on the relative amount of revenue sold through its distributors, the change in inventory held by its distributors, and the changes in price concessions granted to its distributors. Previously, the Company deferred revenue and cost of sales on shipments to distributors until the distributor sold the product to their end customer. As required by the new revenue standard, the Company no longer defers revenue and cost of sales, but rather, estimates the effects of returns and allowances provided to distributors and records revenue at the time of sale to the distributor. Sales to non-distributor customers, under both the previous and new revenue standards, are generally recognized upon the Company’s shipment of the product. The cumulative effect of the changes made to our condensed consolidated April 1, 2018 balance sheet for the adoption of the new revenue standard is summarized in the table of opening balance sheet adjustments below. In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our condensed consolidated income statement and balance sheet for the period ended December 31, 2018 was as follows (in millions):

Income Statement	For the three months ended December 31, 2018		
	As reported	Balances without	Effect of Change

		adoption of New Revenue Standard	Higher / (Lower)
Net Sales	$1,374.7	$1,391.4	$(16.7)
Cost of Sales	$595.1	$606.6	$(11.5)
Gross Profit	$779.6	$784.8	$(5.2)
Income tax provision (benefit)	$5.8	$5.2	$0.6
Net Income	$49.2	$55.0	$(5.8)

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Income Statement	For the nine months ended December 31, 2018		
	As reported	Balances without adoption of New Revenue Standard	Effect of Change Higher / (Lower)
Net Sales	$4,019.7	$4,039.0	$(19.3)
Cost of Sales	$1,908.8	$1,925.9	$(17.1)
Gross Profit	$2,110.9	$2,113.1	$(2.2)
Income tax provision (benefit)	$(127.9)	$(128.1)	$0.2
Net Income	$181.2	$183.6	$(2.4)

Balance Sheet	As of December 31, 2018		
	As reported	Balances without adoption of New Revenue Standard	Effect of Change Higher / (Lower)
ASSETS			
Accounts receivable, net	$544.8	$578.6	$(33.8)
Inventories	$702.5	$715.0	$(12.5)
Other current assets	$194.1	$157.3	$36.8
Other assets	$106.4	$100.9	$5.5
Long-term deferred tax assets	$1,717.1	$1,739.4	$(22.3)
LIABILITIES			
Accrued liabilities	$407.7	$387.4	$20.3
Deferred income on shipments to distributors	$—	$320.1	$(320.1)
Long-term deferred tax liability	$830.5	$813.7	$16.8
STOCKHOLDERS' EQUITY			
Retained Earnings	$3,122.4	$2,865.7	$256.7

The significant changes in our financial statements noted in the table above are primarily due to the transition from sell-through revenue recognition to sell-in revenue recognition as required by the New Revenue Standard, which eliminated the balance of deferred income on shipments to distributors, significantly reduced accounts receivable, and significantly increased retained earnings. Prior to our acquisition of Microsemi, Microsemi already recognized revenue on a sell-in basis, so the impact of the adoption of the New Revenue Standard was primarily driven by Microchip's historical business excluding Microsemi.

During the three months ended June 30, 2018, the Company adopted ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard requires available-for-sale equity investments to be measured at fair value with changes in fair value recognized in net income. The adoption of this standard did not have a material impact on the Company's financial statements.

During the three months ended June 30, 2018, the Company adopted 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. This standard has been applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. The adoption of this standard resulted in a cumulative-effect increase in the Company's deferred tax assets of approximately $1.58 billion, a decrease to the Company's deferred tax liabilities of $1.1 million, a decrease to other assets of $24.1 million, and a decrease of $1.7 million to other long-term liabilities.

During the three months ended June 30, 2018, the Company adopted 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

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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. The standard has been applied using a retrospective transition method to each period presented. The adoption of this standard did not have a material impact on the Company's financial statements.

The following table summarizes the opening balance sheet adjustments related to the adoption of the New Revenue Standard, ASU 2016-01-Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-16-Intra-Entity Transfers of Assets Other Than Inventory (in millions):

	Balance as of	Adjustments from			Balance as of
	March 31, 2018	ASC Topic 606	ASU 2016-01	ASU 2016-16	April 1, 2018
ASSETS					
Accounts receivable, net	$563.7	$(45.6)	$ —	$—	$518.1
Inventories	$476.2	$(5.1)	$ —	$—	$471.1
Other current assets	$119.8	$17.2	$ —	$—	$137.0
Long-term deferred tax assets	$100.2	$(23.1)	$ —	$1,579.4	$1,656.5
Other assets	$71.8	$—	$ —	$(24.1)	$47.7
LIABILITIES					
Accrued liabilities	$229.6	$18.5	$ —	$—	$248.1
Deferred income on shipments to distributors	$333.8	$(333.8)	$ —	$—	$—
Long-term deferred tax liability	$205.8	$16.8	$ —	$(1.1)	$221.5
Other long-term liabilities	$240.9	$—	$ —	$(1.7)	$239.2
STOCKHOLDERS' EQUITY					
Accumulated other comprehensive loss	$(17.6)	$—	$ (1.7)	$—	$(19.3)
Retained earnings	$1,397.3	$241.9	$ 1.7	$1,558.1	$3,199.0

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 non-financial 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 condensed consolidated financial statements.

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

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 condensed 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 for all leases with terms longer than 12 months 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 with a cumulative-effect adjustment to retained earnings at either the beginning of the earliest comparative period presented in the financial statements or the beginning of the period of adoption. The Company is currently evaluating use of the optional transition method, practical expedient elections, and the impact the adoption of this standard will have on its condensed consolidated financial statements.

Note 3. Business Acquisitions

Acquisition of Microsemi

On May 29, 2018, the Company completed its acquisition of Microsemi Corporation, a publicly traded company headquartered in Aliso Viejo, California. The Company paid an aggregate of approximately $8.19 billion in cash to the stockholders of Microsemi. The total consideration transferred in the acquisition, including approximately $53.9 million of non-cash consideration for the exchange of certain share-based payment awards of Microsemi for stock awards of the Company, was approximately $8.24 billion. In addition to the consideration transferred, the Company recognized in its consolidated financial statements $3.18 billion in liabilities of Microsemi consisting of debt, taxes payable and deferred, restructuring, and contingent and other liabilities of which $2.06 billion of existing debt was paid off. The Company financed the purchase price using approximately $8.10 billion of borrowings consisting of $3.10 billion under its amended and restated revolving line of credit (the "Credit Facility"), $3.0 billion under the term loan feature of the Credit Facility ("Term Loan Facility"), and $2.0 billion in newly issued senior secured notes. The Company incurred $22.0 million in acquisition costs related to the acquisition. As a result of the acquisition, Microsemi became a wholly owned subsidiary of the Company. Microsemi offers a comprehensive portfolio of semiconductor and system solutions for aerospace and defense, communications, data center and industrial markets. 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 Microsemi 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 Microsemi's net tangible assets and intangible assets based on their estimated fair values as of May 29, 2018. 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 Microsemi acquisition is deductible for tax purposes. The Company has retained independent third-party appraisers to assist management in its ongoing valuation of the acquired assets and liabilities. The purchase price allocation has not been finalized and is based on estimates and assumptions that are subject to change related to the valuation of inventory, intangible assets, taxes and other assets and liabilities. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuation and estimates of useful lives. The purchase price allocation is preliminary and could change materially during the measurement period.

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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 well as the associated estimated useful lives of the acquired intangible assets (in millions).

	Previously reported September 30, 2018	Adjustments	December 31, 2018
Assets acquired			
Cash and cash equivalents	$ 340.0	$ —	$ 340.0
Accounts receivable	216.1	—	216.1
Inventories	625.0	(53.5)	571.5
Other current assets	66.6	18.6	85.2
Property, plant and equipment	201.9	—	201.9
Goodwill	4,488.5	(5.5)	4,483.0
Purchased intangible assets	5,466.9	—	5,466.9
Long-term deferred tax assets	6.0	—	6.0
Other assets	57.2	—	57.2
Total assets acquired	11,468.2	(40.4)	11,427.8
Liabilities assumed			
Accounts payable	(226.9)	(6.9)	(233.8)
Other current liabilities	(174.8)	5.4	(169.4)
Long-term debt	(2,056.9)	—	(2,056.9)
Deferred tax liabilities	(617.2)	12.5	(604.7)
Long-term income tax payable	(101.6)	14.4	(87.2)
Other long-term liabilities	(46.3)	15.0	(31.3)
Total liabilities assumed	(3,223.7)	40.4	(3,183.3)
Purchase price allocated	$ 8,244.5	$ —	$ 8,244.5

Purchased Intangible Assets	Weighted Average Useful Life (in years)	May 29, 2018 (in millions)
Core and developed technology	15	$ 4,312.1
In-process research and development	—	794.2
Customer-related	12	326.9
Backlog	1	27.9
Other	4	5.8
Total purchased intangible assets		$ 5,466.9

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 are being 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.

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Customer-related intangible assets consist of Microsemi's contractual relationships and customer loyalty related to its distributor and end-customer relationships. The fair values of the customer-related intangibles are being determined based on expected attrition and revenue growth for Microsemi's existing customers as of the acquisition date. 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 Microsemi at the acquisition date, and the fair values are being determined based on the estimated profit associated with those orders. Backlog related assets have a one year useful life and are 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 Microsemi transaction is 9 years. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $851.4 million was established as a net deferred tax liability for the future amortization of the intangible assets.

The amount of Microsemi net sales included in the Company's condensed consolidated statements of operations for the three and nine months ended December 31, 2018 was approximately $477.6 million and $1,097.8 million, respectively. The amount of Microsemi net loss included in the Company's condensed consolidated statements of operations for the three and nine months ended December 31, 2018, was approximately $223.2 million and $473.6 million, respectively.

The following unaudited pro-forma consolidated results of operations for the three and nine months ended December 31, 2018 and 2017 assume the closing of the Microsemi acquisition occurred as of April 1, 2017. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. 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, 2017 or of results that may occur in the future (in millions except per share data):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net sales	$1,374.7	$1,462.9	$4,234.0	$4,380.5
Net income (loss)	$102.4	$(438.8)	$420.5	$(742.5)
Basic net income (loss) per common share	$0.43	$(1.87)	$1.78	$(3.20)
Diluted net income (loss) per common share	$0.42	$(1.87)	$1.69	$(3.20)

Note 4. 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, 2018 (in millions):

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018

	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$1,331.3	$736.2	$3,911.4	$2,002.6
Technology licensing	43.4	43.4	108.3	108.3
Total	$1,374.7	$779.6	$4,019.7	$2,110.9

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

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	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2017	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$966.7	$579.6	$2,900.2	$1,727.3
Technology licensing	27.5	27.5	78.3	78.3
Total	$994.2	$607.1	$2,978.5	$1,805.6

Note 5. Net Sales

The following table represents the Company's net sales by product line (in millions):

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Microcontrollers	$716.9	$2,218.0
Analog, interface, mixed signal and timing products	396.6	1,147.7
Memory products	44.0	142.0
Field-programmable gate array products	97.7	206.4
Technology licensing	43.4	108.3
Multi-market and other	76.1	197.3
Total net sales	$1,374.7	$4,019.7

All of the product lines listed above are included in the Company's Semiconductor Product segment with the exception of Technology Licensing, which belongs to the Technology Licensing segment.

The following table represents the Company's net sales by contract type (in millions).

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Distributors	$686.3	$2,044.4
Direct customers	645.0	1,867.0
Licensees	43.4	108.3
Total net sales	$1,374.7	$4,019.7

Distributors are customers that buy products with the intention of reselling them. Distributors generally have a distributor agreement with the Company to govern the terms of the relationship. Direct customers are non-distributor customers, which generally do not have a master sales agreement with the Company. The Company's direct customers primarily consist of original equipment manufacturers (OEMs) and, to a lesser extent, contract manufacturers. Licensees are customers of our Technology Licensing segment, which include purchasers of our intellectual property and customers that have licensing agreements to use the Company's SuperFlash® embedded flash and Smartbits® one time programmable NVM technologies. All of the contract types listed in the table above are included in the Company's Semiconductor Product segment with the exception of Licensees, which belong to the Technology

Licensing segment.

Substantially all of the Company's net sales are recognized from contracts with customers, and therefore, subject to the new revenue recognition standard.

Semiconductor Product Segment

For contracts related to the purchase of semiconductor products, the Company satisfies its performance obligation when control of the ordered product transfers to the customer. The timing of the transfer of control depends on the agreed upon shipping terms with the customer, but generally occurs upon shipment, which is when physical possession of the product has been transferred and legal title of the product transfers to the customer. Payment is generally due within 30 days of the ship date. Payment is generally collected after the Company satisfies its performance obligation, therefore contract liabilities are uncommon. Also, the Company usually does not record contract assets because the Company has an unconditional right to

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payment upon satisfaction of the performance obligation, and therefore, a receivable is more commonly recorded than a contract asset. Refer to Note 10 for the opening and closing balances of the Company's receivables. As contracts with customers generally have an expected duration of one year or less, the balance of open performance obligations as of period end that will be recognized as revenue subsequent to December 31, 2019 is immaterial.

Generally, there is only a single performance obligation in the Company's contracts with customers for semiconductor products; as such, the entire transaction price is allocated to the single performance obligation and allocation of the transaction price to individual performance obligations is not necessary. The consideration received from customers is fixed, with the exception of consideration from certain distributors. Certain of the Company's distributors are granted price concessions and return rights, which result in variable consideration. The amount of revenue recognized for sales to these certain distributors is adjusted for estimates of the price concessions and return rights that are expected to be claimed. These estimates are based on the recent history of price concessions and stock rotations.

Technology Licensing Segment

The technology licensing segment includes sales and licensing of the Company's intellectual property. For contracts related to the sale of the Company's intellectual property, the Company satisfies its performance obligation and recognizes revenue when control of the intellectual property transfers to the customer. For contracts related to the licensing of the Company's technology, the Company satisfies its performance obligation and recognizes revenue as usage of the license occurs. The transaction price is fixed by the license agreement. Payment is collected after the Company satisfies its performance obligation, and therefore no contract liabilities are recorded. The Company does not record contract assets due to the fact that the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, the Company recognizes a receivable instead of a contract asset. Refer to Note 10 for the opening and closing balances of the Company's receivables.

Note 6. Special (Income) Charges and Other, Net

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Restructuring				
Employee separation costs	$3.3	$0.1	$60.5	$1.5
Gain on sale of assets	—	—	—	(4.4)
Impairment charges	0.2	—	3.7	—
Contract exit costs	0.1	(0.1)	(2.9)	0.6
Other	0.1	0.1	0.7	—
Legal settlement	(5.0)	—	(5.0)	—
Non-restructuring contract exit costs and other	—	0.1	—	19.6
Total	$(1.3)	$0.2	$57.0	$17.3

The Company continuously evaluates its existing operations in an attempt to identify and realize cost savings opportunities and operational efficiencies. This same approach is applied to businesses that are acquired by the

Company and often the operating models of acquired companies are not as efficient as the Company's operating model which enables the Company to realize significant savings and efficiencies. As a result, following an acquisition, the Company will from time to time incur restructuring expenses; however, the Company is often not able to estimate the timing or amount of such costs in advance of the period in which they occur. The primary reason for this is that the Company regularly reviews and evaluates each position, contract and expense against the Company's strategic objectives, long-term operating targets and other operational priorities. Decisions related to restructuring activities are made on a "rolling basis" during the course of the integration of an acquisition whereby department managers, executives and other leaders work together to evaluate each of these expenses and make recommendations. As a result of this approach, at the time of an acquisition, 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.

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The Company's restructuring expenses during the three and nine months ended December 31, 2018 were related to the Company's most recent business acquisitions, 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 and intangible asset impairment charges. The impairment charges in the nine months ended December 31, 2018 were primarily recognized as a result of writing off intangible assets purchased from Microsemi prior to the close of the acquisition and other intangible assets that were impaired as a result of changes in the combined product roadmaps after the acquisition that affected the use and life of the assets. Additional costs will be incurred in the future as additional synergies or operational efficiencies are identified in connection with the Microsemi transaction and other previous acquisitions.

All of the Company's restructuring activities occurred in its semiconductor products segment. The Company has incurred $110.4 million in costs since the start of fiscal 2016 in connection with employee separation activities, of which $3.3 million and $60.5 million was incurred during the three and nine months ended December 31, 2018, respectively, and $0.1 million and $1.5 million was incurred during the three and nine months ended December 31, 2017, respectively. The Company could incur future expenses as additional synergies or operational efficiencies are identified. The Company is not able to estimate future expenses, if any, to be incurred in employee separation costs. The Company has incurred $42.6 million in costs in connection with contract exit activities since the start of fiscal 2016 which includes expense of $0.1 million and income of $2.9 million for the three and nine months ended December 31, 2018, respectively, and income of $0.1 million and expense of $0.6 million for the three and nine months ended December 31, 2017, respectively. The amounts recognized during the nine months ended December 31, 2018 were related to vacated lease liabilities. While the Company expects to incur further acquisition-related contract exit expenses, it is not able to estimate the amount at this time.

In the three months ended September 30, 2017, the Company recognized $19.5 million in non-restructuring contract exit costs for fees associated with transitioning from the public utility provider in Oregon to a lower cost direct access provider. The fee is being paid monthly starting in calendar year 2018 and depends 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.

The following is a roll forward of accrued restructuring and other exit charges from April 1, 2018 to December 31, 2018 (in millions):

	Restructuring		Non-Restructuring	
	Employee Separation Costs	Exit Costs	Exit Costs	Total
Balance at April 1, 2018	$0.8	$27.3	$ 19.1	$47.2
Additions due to Microsemi acquisition	11.4	6.6	—	18.0
Charges/income	44.1	(2.9)	—	41.2
Payments	(42.8)	(9.7)	(3.4)	(55.9)
Non-cash - Other	—	0.4	0.6	1.0
Balance at December 31, 2018	$13.5	$21.7	$ 16.3	$51.5

Current	$29.1
Non-current	22.4
Total	$51.5

The liability for restructuring and other exit costs of $51.5 million is included in accrued liabilities and other long-term liabilities on the Company's condensed consolidated balance sheet as of December 31, 2018.

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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 debt securities at December 31, 2018 (in millions):

	Available-for-sale Debt Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Time deposits	$ 2.3	—	—	$ 2.3

At December 31, 2018, short-term investments of $4.0 million included available-for-sale debt securities of $2.3 million and marketable equity securities of $1.7 million.

The following is a summary of available-for-sale debt securities at March 31, 2018 (in millions):

	Available-for-sale Debt Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities:				
Government agency bonds	$723.2	$ —	$ —	$723.2
Municipal bonds - taxable	14.9	—	—	14.9
Time deposits	11.5	—	—	11.5
Corporate bonds and debt	542.9	—	—	542.9
Total	$1,292.5	$ —	$ —	$1,292.5

At March 31, 2018, short-term investments of $1.30 billion included available-for-sale debt securities of $1.29 billion and marketable equity securities of $2.8 million.

The Company sold available-for-sale debt securities for proceeds of $1.38 billion during the nine months ended December 31, 2018 to help finance the acquisition of Microsemi. The Company had no sales of available-for-sale debt securities during the nine months ended December 31, 2017. During the nine months ended December 31, 2018, the Company recognized losses of $5.6 million on available-for-sale debt securities and $1.2 million on marketable equity securities. During fiscal 2018, the Company recognized an impairment of $15.5 million on available-for-sale debt securities based on its evaluation of available evidence and the Company's intent to sell these investments which were subsequently sold in the first quarter of fiscal 2019. 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 condensed consolidated statements of operations.

As of December 31, 2018 and March 31, 2018, the Company had no available-for-sale debt securities in an unrealized loss position.

The amortized cost and estimated fair value of the available-for-sale debt securities at December 31, 2018, by contractual maturity are shown below (in millions). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale debt securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	$ 2.3	$ —	$ —	$ 2.3

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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.

Assets Measured at Fair Value on a Recurring Basis

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

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Balance
Assets			
Cash and cash equivalents:			
Money market mutual funds	$ 6.7	$ —	$ 6.7
Deposit accounts	—	425.5	425.5
Short-term investments:			
Marketable equity securities	1.7	—	1.7
Time deposits	—	2.3	2.3
Total assets measured at fair value	$ 8.4	$ 427.8	$ 436.2

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

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

There were no transfers between Level 1 and Level 2 during the three and nine months ended December 31, 2018 or the fiscal year ended March 31, 2018. There were no assets measured on a recurring basis using significant unobservable inputs (Level 3).

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, 2018 and December 31, 2017. These investments are included in other assets on the condensed consolidated balance sheets.

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

Note 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, 2018 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 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 excluding debt issuance costs. 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 borrowings at December 31, 2018 approximated the carrying value and are considered Level 2 in the fair value hierarchy described in

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Note 8. 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, Senior Secured Notes, and Term Loan Facility

The Company measures the fair value of its senior and junior subordinated convertible debt and senior secured notes 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, senior secured notes, and term loan facility as of December 31, 2018 and March 31, 2018 (in millions).

	December 31, 2018		March 31, 2018	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
2023 Senior Secured Notes	$984.5	$966.6	$—	$—
2021 Senior Secured Notes	$985.9	$985.8	$—	$—
Term Loan Facility	$2,684.3	$2,713.0	$—	$—
2017 Senior Convertible Debt	$1,479.3	$2,014.3	$1,437.6	$2,459.2
2015 Senior Convertible Debt	$1,347.8	$2,397.1	$1,309.9	$3,079.1
2017 Junior Convertible Debt	$333.6	$675.1	$326.7	$876.9

(1) The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 13. Debt and Credit Facility for further information).

Note 10. Other Financial Statement Details

Accounts Receivable

Accounts receivable consists of the following (in millions):

	December 31, 2018	March 31, 2018
Trade accounts receivable	$ 539.3	$ 557.8
Other	7.5	8.1
Total accounts receivable, gross	546.8	565.9
Less allowance for doubtful accounts	2.0	2.2
Total accounts receivable, net	$ 544.8	$ 563.7

Inventories

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

	December 31, 2018	March 31, 2018
Raw materials	$ 81.4	$ 26.0

Work in process	392.8	311.8
Finished goods	228.3	138.4
Total inventories	$ 702.5	$ 476.2

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

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Property, Plant and Equipment

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

	December 31, 2018	March 31, 2018
Land	$ 82.3	$ 73.4
Building and building improvements	634.3	508.5
Machinery and equipment	2,197.1	1,943.9
Projects in process	129.0	118.3
Total property, plant and equipment, gross	3,042.7	2,644.1
Less accumulated depreciation and amortization	2,003.0	1,876.2
Total property, plant and equipment, net	$ 1,039.7	$ 767.9

Depreciation expense attributed to property, plant and equipment was $47.0 million and $132.2 million for the three and nine months ended December 31, 2018, respectively, compared to $32.0 million and $90.9 million for the three and nine months ended December 31, 2017, respectively.

Note 11. Intangible Assets and Goodwill

Intangible assets consist of the following (in millions):

	December 31, 2018		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$7,064.4	$ (984.5)	$6,079.9
Customer-related	1,043.8	(512.3)	531.5
Backlog	27.9	(19.5)	8.4
In-process research and development	7.7	—	7.7
Distribution rights	0.3	(0.2)	0.1
Other	7.4	(2.1)	5.3
Total	$8,151.5	$ (1,518.6)	$6,632.9

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

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the nine months ended December 31, 2018, due to the acquisition of Microsemi, the Company acquired $4.31 billion of core and developed technology which has a weighted average amortization period of 15 years, $326.9 million of customer-related intangible assets which have a weighted average amortization period of 12 years, $27.9 million of intangible assets related to backlog with an amortization period of 1 year, $5.8 million of other intangible assets which have a weighted average amortization period of 4 years, and $794.2 million of in-process technology. In the nine months ended December 31, 2018, $798.6 million of in-process research and development intangible assets, primarily consisting of intangible assets acquired in the acquisition of Microsemi, reached technological feasibility and was reclassified as core and developed technology and began being amortized over the respective estimated useful lives. The following is an expected amortization schedule for the intangible assets for the remainder of fiscal 2019 through fiscal 2023, absent any future acquisitions or impairment charges (in millions):

Fiscal Year Ending March 31,	Projected Amortization Expense
2019	$196.8
2020	$992.0
2021	$926.7
2022	$851.8
2023	$660.5

Amortization expense attributed to intangible assets was $196.9 million and $505.5 million for the three and nine months ended December 31, 2018, respectively. 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. In the three and nine