MICROCHIP TECHNOLOGY INC
Form 10-Q
November 07, 2011
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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 September 30, 2011.
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<br>(State or Other Jurisdiction of Incorporation or Organization) | 86-0629024<br>(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 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 October 28, 2011 |
|---|---|
| Common Stock, $0.001 par value | 191,131,390 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

| | September 30, 2011 | March 31, 2011 |
|---|---|---|
| Cash and cash equivalents | $675,129 | $703,924 |
| Short-term investments | 740,309 | 539,572 |
| Accounts receivable, net | 142,409 | 181,202 |
| Inventories | 211,206 | 180,800 |
| Prepaid expenses | 22,367 | 22,234 |
| Deferred tax assets | 96,488 | 88,822 |
| Other current assets | 45,468 | 58,429 |
| Total current assets | 1,933,376 | 1,774,983 |
| Property, plant and equipment, net | 548,977 | 540,513 |
| Long-term investments | 359,980 | 464,838 |
| Goodwill | 76,061 | 76,018 |
| Intangible assets, net | 76,503 | 77,929 |
| Other assets | 38,852 | 33,777 |
| Total assets | $3,033,749 | $2,968,058 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | $57,792 | $68,433 |
| Accrued liabilities | 92,176 | 131,839 |
| Deferred income on shipments to distributors | 144,185 | 140,044 |
| Total current liabilities | 294,153 | 340,316 |
| Junior convertible debentures | 351,371 | 347,334 |
| Long-term income tax payable | 65,040 | 58,125 |
| Deferred tax liability | 409,372 | 399,527 |
| Other long-term liabilities | 9,874 | 10,318 |
| 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 191,127,533 shares outstanding at September 30, 2011; 218,789,994 shares issued and 189,541,707 shares outstanding at March 31, 2011 | 191 | 190 |
| Additional paid-in capital | 1,270,008 | 1,268,128 |
| Retained earnings | 1,475,312 | 1,428,838 |
| Accumulated other comprehensive (loss) income | (596) | 3,357 |
| Common stock held in treasury: 27,662,461 shares at September 30, 2011; 29,248,287 shares at March 31, 2011 | (840,976) | (888,075) |
| Total stockholders' equity | 1,903,939 | 1,812,438 |
| Total liabilities and stockholders' equity | $3,033,749 | $2,968,058 |

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 September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | $340,602 | $382,271 | $715,109 | $739,396 |
| Cost of sales (1) | 145,608 | 157,266 | 300,367 | 306,948 |
| Gross profit | 194,994 | 225,005 | 414,742 | 432,448 |
| Operating expenses: | | | | |
| Research and development (1) | 45,383 | 43,720 | 90,681 | 84,250 |
| Selling, general and administrative (1) | 51,991 | 57,584 | 109,581 | 114,796 |
| Special charges | — | 558 | — | 1,033 |
| | 97,374 | 101,862 | 200,262 | 200,079 |
| Operating income | 97,620 | 123,143 | 214,480 | 232,369 |
| Losses on equity method investments | (13) | (43) | (74) | (95) |
| Other income (expense): | | | | |
| Interest income | 4,028 | 4,070 | 8,034 | 8,416 |
| Interest expense | (8,911) | (8,045) | (16,926) | (15,784) |
| Other, net | (2,454) | 1,873 | (1,418) | 1,372 |
| Income from continuing operations before income taxes | 90,270 | 120,998 | 204,096 | 226,278 |
| Income tax provision | 10,983 | 16,250 | 25,516 | 29,653 |
| Net income from continuing operations | 79,287 | 104,748 | 178,580 | 196,625 |
| Discontinued operations: | | | | |
| Loss from discontinued operations before income taxes | — | (1,756) | — | (4,055) |
| Income tax benefit | — | (88) | — | (76) |
| Net loss from discontinued operations | — | (1,668) | — | (3,979) |
| Net income | $79,287 | $103,080 | $178,580 | $192,646 |
| Basic net income per common share – continuing operations | $0.42 | $0.56 | $0.94 | $1.06 |
| Basic net loss per common share – discontinued operations | — | (0.01) | — | (0.02) |
| Basic net income per common share | $0.42 | $0.55 | $0.94 | $1.04 |
| Diluted net income per common share – continuing operations | $0.40 | $0.55 | $0.88 | $1.03 |
| Diluted net loss per common share – discontinued operations | — | (0.01) | — | (0.02) |
| Diluted net income per common share | $0.40 | $0.54 | $0.88 | $1.01 |
| Dividends declared per common share | $0.347 | $0.343 | $0.693 | $0.685 |
| Basic common shares outstanding | 190,809 | 186,303 | 190,461 | 185,922 |
| Diluted common shares outstanding | 200,199 | 190,704 | 202,383 | 190,388 |
| (1) Includes share-based compensation expense as follows: | | | | |
| Cost of sales | $1,608 | $1,743 | $3,007 | $3,708 |
| Research and development | 3,556 | 3,025 | 6,969 | 6,192 |
| Selling, general and administrative | 4,320 | 4,157 | 8,532 | 8,476 |

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)

| | Six months ended September 30, 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $178,580 | $192,646 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 50,528 | 52,976 |
| Deferred income taxes | 7,086 | 13,294 |
| Share-based compensation expense related to equity incentive plans | 18,508 | 18,376 |
| Excess tax benefit from share-based compensation | (402) | — |
| Convertible debt derivatives - revaluation and amortization | 366 | 57 |
| Amortization of convertible debenture issuance costs | 110 | 110 |
| Amortization of debt discount on convertible debentures | 3,671 | 3,356 |
| Losses on equity method investments | 74 | 95 |
| Gain on sale of assets | (48) | (39) |
| Unrealized impairment loss on available-for-sale investments | 3,009 | 841 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 38,793 | (18,503) |
| Increase in inventories | (30,074) | (10,035) |
| Increase in deferred income on shipments to distributors | 4,141 | 31,019 |
| (Decrease) increase in accounts payable and accrued liabilities | (50,300) | 3,328 |
| Change in other assets and liabilities | 14,017 | 3,926 |
| Net cash provided by operating activities | 238,059 | 291,447 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale investments | (665,715) | (796,877) |
| Sales and maturities of available-for-sale investments | 562,445 | 693,760 |
| Purchase of Silicon Storage Technology, Inc., net of cash received | — | (112,707) |
| Investment in other assets | (5,146) | (1,433) |
| Proceeds from sale of assets | 48 | 28,430 |
| Capital expenditures | (52,449) | (65,937) |
| Net cash used in investing activities | (160,817) | (254,764) |
| Cash flows from financing activities: | | |
| Payment of cash dividend | (132,106) | (127,361) |
| Proceeds from sale of common stock | 25,667 | 22,269 |
| Excess tax benefit from share-based compensation | 402 | — |
| Net cash used in financing activities | (106,037) | (105,092) |
| Net decrease in cash and cash equivalents | (28,795) | (68,409) |
| Cash and cash equivalents at beginning of period | 703,924 | 492,130 |
| Cash and cash equivalents at end of period | $675,129 | $423,721 |

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, 2011. The results of operations for the six months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012 or for any other period.

(2) Recently Issued Accounting Pronouncements

In the first quarter of fiscal 2012, the Company adopted new standards for revenue recognition with multiple deliverables. These new standards change the determination of whether the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the method in which revenue is allocated to the separately identified deliverables. The adoption of these new standards did not have a significant impact on the Company's condensed consolidated financial statements.

In the first quarter of fiscal 2012, the Company adopted new standards that remove certain tangible products and associated software from the scope of the software revenue recognition guidance. The adoption of these new standards did not have a significant impact on the Company's condensed consolidated financial statements.

In the first quarter of fiscal 2012, the Company adopted new standards for the application of the milestone method of revenue recognition for certain research and development arrangements entered into by its technology licensing segment. Under this standard, the Company will recognize arrangement consideration received for achieving specified performance measures during the period in which the milestones are achieved, provided certain criteria are met for the milestones to be considered substantive. This standard was adopted prospectively, and its adoption is not expected to have a significant impact on the Company's condensed consolidated financial statements.

(3) Discontinued Operations and Assets Held for Sale

Discontinued operations includes the following product families that were acquired in the acquisition of SST: NAND Drives, NAND controllers, Smart Card ICs, Combo Memory, Concurrent SuperFlash, Small-Sector Flash and many-time Programmable Flash memories and certain serial NOR Flash products from 512K to 64MB density in the geographic regions of Taiwan, China, Hong Kong, Singapore, Malaysia, Thailand, Indonesia, Vietnam and Philippines. These product lines were marketed for sale after the acquisition of SST on April 8, 2010 based on management's decision regarding them not being a strategic fit into the Company's product portfolio. On May 21, 2010, the Company completed a transaction to sell the NAND Drives, NAND controllers, Smart Card ICs, Combo Memory, Concurrent SuperFlash, Small-Sector Flash and many-time Programmable Flash memories to Greenliant Systems Ltd. The sale price in this transaction was determined by management to represent fair value, and accordingly, no gain or loss was recognized on the sale of the net assets. In this sale, the Company disposed of approximately $23.6 million of assets held for sale, primarily comprised of inventory, property, plant and equipment, intangible assets and non-marketable securities.

On July 8, 2010, the Company granted an exclusive limited license for the manufacture of certain Serial NOR-Flash products to Professional Computer Technology, Ltd. (PCT). The license to PCT is limited to the industry segments of optical disc drives, set top boxes, electronic books, video games, digital displays, DVD player/recorder, notebook computers, netbooks, desktop computers, PC monitors, mass storage devices, printers/scanners/copiers/faxes, PC-CAM, point of sale devices,

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graphic cards, servers/clients/workstations, and mobile phones. PCT has no license to sell these products to any other industry segment or geographic region other than those listed above. Certain multi-national customers are excluded from this license.

For financial statement purposes, the results of operations for these discontinued businesses have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations.

The results of discontinued operations for the three and six months ended September 30, 2010 are as follows (amounts in thousands):

| | Three Months Ended September 30, 2010 | Six Months Ended September 30, 2010 |
|---|---|---|
| Net sales | $8,288 | $24,813 |
| Cost of sales | (9,871) | (25,192) |
| Operating expenses | (173) | (3,676) |
| Income tax benefit | 88 | 76 |
| Net loss from discontinued operations | $(1,668) | $(3,979) |

(4) Special Charges

During the three and six months ended September 30, 2010, the Company incurred $0.6 million and $1.0 million, respectively, of severance-related and office closing costs associated with the acquisition of SST. There were no such charges in the three or six months ended September 30, 2011.

(5) Segment Information

The Company's reporting segments include 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 revenues and gross profit for each segment for the three and six months ended September 30, 2011 (amounts in thousands):

| | Three Months Ended September 30, 2011 | | Six Months Ended September 30, 2011 | |
|---|---|---|---|---|
| | Net Sales | Gross Profit | Net Sales | Gross Profit |
| Semiconductor products | $318,618 | $174,469 | $672,478 | $374,534 |
| Technology licensing | 21,984 | 20,525 | 42,631 | 40,208 |
| | $340,602 | $194,994 | $715,109 | $414,742 |

The following table represents revenues and gross profit for each segment for the three and six months ended September 30, 2010 (amounts in thousands):

| | Three Months Ended September 30, 2010 | | Six Months Ended September 30, 2010 | |
|---|---|---|---|---|
| | Net Sales | Gross Profit | Net Sales | Gross Profit |
| Semiconductor products | $364,999 | $208,729 | $706,767 | $401,833 |
| Technology licensing | 17,272 | 16,276 | 32,629 | 30,615 |
| | $382,271 | $225,005 | $739,396 | $432,448 |

(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 and marketable equity securities at September 30, 2011 (amounts in thousands):

| | Available-for-sale Securities | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Government agency bonds | $345,924 | $569 | $(151) | $346,342 |
| Municipal bonds | 10,445 | 132 | — | 10,577 |
| Auction rate securities | 11,693 | — | — | 11,693 |
| Corporate bonds and debt | 724,089 | 2,701 | (3,191) | 723,599 |
| Marketable equity securities | 9,057 | — | (979) | 8,078 |
| | $1,101,208 | $3,402 | $(4,321) | $1,100,289 |

The following is a summary of available-for-sale and marketable equity securities at March 31, 2011 (amounts in thousands):

| | Available-for-sale Securities | | | |
|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Government agency bonds | $431,355 | $159 | $(923) | $430,591 |
| Municipal bonds | 11,445 | 34 | (22) | 11,457 |
| Auction rate securities | 12,475 | — | — | 12,475 |
| Corporate bonds and debt | 519,499 | 4,116 | (589) | 523,026 |
| Marketable equity securities | 26,173 | 688 | — | 26,861 |
| | $1,000,947 | $4,997 | $(1,534) | $1,004,410 |

At September 30, 2011, the Company's available-for-sale debt securities, and marketable equity securities are presented on the condensed consolidated balance sheets as short-term investments of $740.3 million and long-term investments of $360.0 million. At March 31, 2011, the Company’s available-for-sale debt securities and marketable equity securities are presented on the condensed consolidated balance sheets as short-term investments of $539.6 million and long-term investments of $464.8 million.

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At September 30, 2011, $11.7 million of the fair value of the Company's investment portfolio was invested in auction rate securities (ARS). With the continuing liquidity issues in the global credit and capital markets, the Company's ARS have experienced multiple failed auctions from September 2007 through the date of this report. While the Company continues to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for these ARS no longer approximates the original purchase value.

The fair value of the failed ARS of $11.7 million has been estimated based on market information and estimates determined by management and could change significantly based on market conditions. The Company evaluated the impairments in the value of these ARS, determining its intent to sell these securities prior to the recovery of its amortized cost basis resulted in the securities being other-than-temporarily impaired and recognized impairment charges on these investments of $0.4 million in each of the three-month periods ended September 30, 2011 and 2010. The Company recognized impairment charges on these investments of $0.8 million in each of the six-month periods ended September 30, 2011 and 2010.

The Company believes that, based on its current unrestricted cash, cash equivalents and short-term investment balances, the current lack of liquidity in the credit and capital markets for ARS will not have a material impact on its liquidity, cash flow or ability to fund its operations.

At September 30, 2011, the Company evaluated its investment portfolio and noted unrealized losses of $3.3 million on its debt securities, and $1.0 million on its marketable equity securities, respectively, which were due to fluctuations in interest rates, credit market conditions, and/or 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 September 30, 2011, except for the ARS described above and certain equity investments that are actively being sold. The Company's intent is to hold these investments until these assets are no longer impaired. For those debt securities not scheduled to mature until after June 30, 2012, 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 September 30, 2011, by maturity, excluding marketable equity securities of $8.1 million and corporate debt of $4.6 million, which have no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available-for-sale | | | | |
| Due in one year or less | $233,977 | $1,162 | $(194) | $234,945 |
| Due after one year and through five years | 841,856 | 2,240 | (3,148) | 840,948 |
| Due after five years and through ten years | — | — | — | — |
| Due after ten years | 11,693 | — | — | 11,693 |
| | $1,087,526 | $3,402 | $(3,342) | $1,087,586 |

The Company had a net realized loss of $0.9 million and a gain of $0.1 million, respectively, from sales of available-for-sale marketable equity securities during the three and six months ended September 30, 2011, compared to no material gains or losses for the three and six months ended September 30, 2010. There were no material gains or losses from sales of available-for-sale debt securities during the three and six months ended September 30, 2011, compared to no material gains or losses during the three months ended September 30, 2010 and net realized losses of $0.2 million during the six months ended September 30, 2010.

Marketable Equity Investments

The Company had investments in public companies with a fair value of $8.1 million as of September 30, 2011. Cash dividends and other distributions of earnings from the investees, if any, are included in other income at the date of record. The Company has classified the shares owned in these companies as marketable securities. As of September 30, 2011, the Company had an unrealized loss in other comprehensive income of $1.0 million on these marketable securities. During the three months ended September 30, 2011, the Company recorded an impairment charge of $1.7 million on certain shares that it

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held due to the current market price and active selling of the shares.

Non-marketable Equity Investments

The Company has certain investments in privately held companies with a carrying value of $7.8 million at September 30, 2011. The investments in privately held companies are accounted for using the cost or the equity method of accounting, as appropriate. Each period the Company evaluates whether an event or change in circumstances has occurred that may indicate an investment has been impaired. If upon further investigation of such events the Company determines the investment has suffered a decline in value that is other than temporary, the Company writes down the investment to its estimated fair value. At September 30, 2011, the Company determined there were no such impairments. These investments are included in other assets on the condensed consolidated balance sheet.

(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.

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 September 30, 2011 are as follows (amounts in thousands):

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| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
|---|---|---|---|---|
| Assets | | | | |
| Money market fund deposits | $318,820 | $— | $— | $318,820 |
| Marketable equity securities | 8,078 | — | — | 8,078 |
| Corporate bonds & debt | — | 718,974 | 4,625 | 723,599 |
| Government agency bonds | — | 346,342 | — | 346,342 |
| Deposit accounts | — | 356,309 | — | 356,309 |
| Municipal bonds | — | 10,577 | — | 10,577 |
| Auction Rate Securities | — | — | 11,693 | 11,693 |
| Total assets measured at fair value | $326,898 | $1,432,202 | $16,318 | $1,775,418 |

Assets measured at fair value on a recurring basis at March 31, 2011 are as follows (amounts in thousands):

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
|---|---|---|---|---|
| Assets | | | | |
| Money market fund deposits | $464,669 | $— | $— | $464,669 |
| Marketable equity securities | 26,861 | — | — | 26,861 |
| Corporate bonds & debt | — | 519,526 | 3,500 | 523,026 |
| Government agency bonds | — | 430,591 | — | 430,591 |
| Deposit accounts | — | 239,255 | — | 239,255 |
| Municipal bonds | — | 11,457 | — | 11,457 |
| Auction Rate Securities | — | — | 12,475 | 12,475 |
| Total assets measured at fair value | $491,530 | $1,200,829 | $15,975 | $1,708,334 |

For Level 3 valuations, the Company estimated the fair value of its ARS based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The estimated fair values that are categorized as Level 3 as well as the marketable equity securities could change significantly based on future market conditions.

The following tables present a reconciliation for all assets measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three and six months ended September 30, 2011, and the three and six months ended September 30, 2010 (amounts in thousands):

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| Three months ended September 30, 2011 | Auction Rate Securities | Corporate Debt | Total Gains (Losses) |
|---|---|---|---|
| Balance at June 30, 2011 | $12,088 | $3,500 | $— |
| Total gains or losses (realized and unrealized): | | | |
| Included in earnings | (395) | — | (395) |
| Included in other comprehensive income (loss) | — | — | — |
| Purchases, sales, issuances, and settlements, net | — | 787 | — |
| Transfer into Level 3 | — | 338 | — |
| Transfer out of Level 3 | — | — | — |
| Balance at September 30, 2011 | $11,693 | $4,625 | $(395) |

| Six months ended September 30, 2011 | Auction Rate Securities | Corporate Debt | Total Gains (Losses) |
|---|---|---|---|
| Balance at March 31, 2011 | $12,475 | $3,500 | $— |
| Total gains or losses (realized and unrealized): | | | |
| Included in earnings | (782) | — | (782) |
| Included in other comprehensive income (loss) | — | — | — |
| Purchases, sales, issuances, and settlements, net | — | 787 | — |
| Transfer into Level 3 | — | 338 | — |
| Transfer out of Level 3 | — | — | — |
| Balance at September 30, 2011 | $11,693 | $4,625 | $(782) |

| Three months ended September 30, 2010 | Auction Rate Securities | Put Option on Auction Rate Securities | Corporate Debt | Total Gains (Losses) |
|---|---|---|---|---|
| Balance at June 30, 2010 | $20,396 | $453 | $3,500 | $— |
| Total gains or losses (realized and unrealized): | | | | |
| Included in earnings | 65 | (453) | | |