

SKYWORKS SOLUTIONS, INC.

Form 10-Q

August 01, 2012

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-5560

SKYWORKS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-2302115

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

20 Sylvan Road, Woburn, Massachusetts

01801

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (781) 376-3000

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

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). R Yes £ No

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

Large Accelerated filer R

Accelerated filer £

Non-accelerated filer £

Smaller reporting company £

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R No

Edgar Filing: SKYWORKS SOLUTIONS, INC. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 26, 2012
Common Stock, par value \$.25 per share	190,841,047

SKYWORKS SOLUTIONS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 29, 2012

TABLE OF CONTENTS

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1: FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF OPERATIONS - THREE AND NINE MONTHS ENDED JUNE 29, 2012 AND JULY 1, 2011</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS - JUNE 29, 2012 AND SEPTEMBER 30, 2011</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS - NINE MONTHS ENDED JUNE 29, 2012 AND JULY 1, 2011</u>	<u>5</u>
<u>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>6</u>
<u>ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>16</u>
<u>ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>21</u>
<u>ITEM 4: CONTROLS AND PROCEDURES</u>	<u>22</u>
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1: LEGAL PROCEEDINGS</u>	<u>23</u>
<u>ITEM 1A: RISK FACTORS</u>	<u>23</u>
<u>ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>23</u>
<u>ITEM 6: EXHIBITS</u>	<u>25</u>
<u>SIGNATURES</u>	<u>26</u>

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

SKYWORKS SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share amounts)

	Three-months Ended		Nine-months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Net revenue	\$389,038	\$356,075	\$1,147,468	\$1,016,606
Cost of goods sold	223,736	199,850	658,044	570,862
Gross profit	165,302	156,225	489,424	445,744
Operating expenses:				
Research and development	56,050	43,067	155,977	121,228
Selling, general and administrative	37,463	35,451	120,609	98,167
Amortization of intangibles	8,608	4,006	24,260	7,246
Restructuring and other charges	1,137	1,475	7,752	1,475
Total operating expenses	103,258	83,999	308,598	228,116
Operating income	62,044	72,226	180,826	217,628
Interest expense	(10	) (465	) (598	) (1,463
Gain on early retirement of convertible debt	—	—	139	—
Other income (loss), net	96	(2	) (115	) (185
Income before income taxes	62,130	71,759	180,252	215,980
Provision for income taxes	12,813	20,211	39,776	53,604
Net income	\$49,317	\$51,548	\$140,476	\$162,376
Earnings per share:				
Basic	\$0.26	\$0.28	\$0.76	\$0.89
Diluted	\$0.26	\$0.27	\$0.74	\$0.85
Weighted average shares:				
Basic	186,269	183,750	185,144	182,642
Diluted	192,457	191,380	191,051	190,628

See the accompanying notes to the consolidated financial statements.

Table of Contents

SKYWORKS SOLUTIONS, INC.
 CONSOLIDATED BALANCE SHEETS
 (Unaudited, in thousands, except per share amounts)

	As of June 29, 2012	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$327,098	\$410,087
Restricted cash	817	712
Receivables, net of allowance for doubtful accounts of \$505 and \$785, respectively	246,894	177,940
Inventory	209,947	198,183
Other current assets	44,734	29,412
Total current assets	829,490	816,334
Property, plant and equipment, net	266,039	251,365
Goodwill	805,413	663,041
Intangible assets, net	102,494	86,808
Deferred tax assets, net	72,524	60,863
Other assets	13,933	11,978
Total assets	\$2,089,893	\$1,890,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$—	\$26,089
Accounts payable	135,597	115,290
Accrued compensation and benefits	32,733	35,684
Other current liabilities	71,241	70,033
Total current liabilities	239,571	247,096
Other long-term liabilities	48,657	34,198
Total liabilities	288,228	281,294
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, no par value: 25,000 shares authorized, no shares issued	—	—
Common stock, \$0.25 par value: 525,000 shares authorized; 200,974 shares issued and 190,391 shares outstanding at June 29, 2012, and 195,407 shares issued and 186,386 shares outstanding at September 30, 2011	47,598	46,597
Additional paid-in capital	1,876,297	1,795,958
Treasury stock, at cost	(160,094	) (130,854
Retained earnings (accumulated deficit)	39,201	(101,275
Accumulated other comprehensive loss	(1,337	) (1,331
Total stockholders' equity	1,801,665	1,609,095
Total liabilities and stockholders' equity	\$2,089,893	\$1,890,389

See the accompanying notes to the consolidated financial statements.

Table of Contents

SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine-months Ended	
	June 29, 2012	July 1, 2011
Cash flows from operating activities:		
Net income	\$140,476	\$162,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	53,654	42,688
Depreciation	52,095	43,120
Amortization of intangible assets and other	24,724	8,312
Contribution of common shares to savings and retirement plans	9,202	8,241
Deferred income taxes	2,306	6,954
Excess tax benefit from share-based payments	(8,909)	(12,074)
Change in fair value of contingent consideration	(5,414)	—
Other	530	206
Changes in assets and liabilities net of acquired balances:		
Receivables, net	(58,520)	4,758
Inventory	3,588	(40,560)
Other current and long-term assets	(6,248)	440
Accounts payable	10,258	(12,992)
Other current and long-term liabilities	17,143	31,550
Net cash provided by operating activities	234,885	243,019
Cash flows from investing activities:		
Capital expenditures	(63,338)	(85,371)
Payments for acquisitions, net of cash acquired	(229,628)	(249,829)
Sales and maturities of short term investments	20,900	—
Net cash used in investing activities	(272,066)	(335,200)
Cash flows from financing activities:		
Retirement of debt and line of credit	(48,047)	(50,000)
Excess tax benefit from share-based payments	8,909	12,074
Change in restricted cash	(105)	5,416
Repurchase of common stock - payroll tax withholdings on equity awards	(16,473)	(19,942)
Repurchase of common stock - share repurchase program	(12,405)	(60,187)
Net proceeds from exercise of stock options	22,219	61,208
Other, net	94	—
Net cash used in financing activities	(45,808)	(51,431)
Net decrease in cash and cash equivalents	(82,989)	(143,612)
Cash and cash equivalents at beginning of period	410,087	453,257
Cash and cash equivalents at end of period	\$327,098	\$309,645
Supplemental cash flow disclosures:		
Income taxes paid	\$19,014	\$11,939
Interest paid	\$168	\$267

See the accompanying notes to the consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc. together with its consolidated subsidiaries, (“Skyworks” or the “Company”) is an innovator of high performance analog semiconductors. Leveraging core technologies, Skyworks supports automotive, broadband, cellular infrastructure, energy management, GPS, industrial, medical, military, wireless networking, smartphone and tablet applications. The Company's portfolio includes amplifiers, attenuators, circulators, detectors, diodes, directional couplers, front-end modules, hybrids, infrastructure RF subsystems, isolators, lighting and display solutions, mixers/demodulators, optocouplers, optoisolators, phase shifters, PLLs/synthesizers/VCOs, power dividers/combiners, power management devices, receivers, switches and technical ceramics.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and footnote disclosures, normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted pursuant to those rules and regulations. However, in management's opinion, the financial information reflects all adjustments, including those of a normal recurring nature necessary to present fairly the financial position, results of operations, and cash flows of the Company for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011, filed with the SEC on November 28, 2011 (the “2011 10-K”), as amended by Amendment No. 1 to the 2011 10-K, filed with the SEC on January 30, 2012.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and accumulated other comprehensive loss that are reported in these unaudited consolidated financial statements and accompanying disclosures. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Significant judgment is required in determining the recognition and/or disclosure of reserves for and fair value of items such as inventory, income taxes, share-based compensation, loss contingencies, subsequent events, bad debt allowances, contingent consideration, intangible assets associated with business combinations, and overall fair value assessments of assets and liabilities, particularly those classified as Level 2 or Level 3 in the fair value hierarchy. In addition, significant judgment is required in determining whether a potential indicator of impairment of long-lived assets exists and in estimating future cash flows for any necessary impairment tests. Management's estimates could differ significantly from actual results.

The Company has evaluated subsequent events through the date of issuance of these unaudited consolidated financial statements.

The Company's fiscal year ends each year on the Friday closest to September 30. Fiscal 2012 consists of 52 weeks and ends on September 28, 2012. Fiscal 2011 consisted of 52 weeks and ended on September 30, 2011. The third quarters of fiscal 2012 and fiscal 2011 each consisted of 13 weeks and ended on June 29, 2012 and July 1, 2011, respectively.

2. BUSINESS COMBINATIONS

On January 9, 2012, the Company acquired Advanced Analogic Technologies Inc. (“AATI”). The Company acquired all of the outstanding shares of AATI in exchange for an aggregate purchase price of \$277.3 million, substantially comprised of cash consideration. AATI is an analog semiconductor company focused on enabling energy-efficient power management devices for consumer electronics, computing and communications markets. The acquisition

expands the Company's product portfolio across new vertical markets with highly complementary analog semiconductor products including battery chargers, DC/DC converters, voltage regulators and LED drivers.

The allocation of the purchase price to the assets and liabilities recognized in the Company's acquisition of AATI was not finalized at the time of filing this quarterly report on Form 10-Q. The preliminary allocation of the purchase price reflected in the accompanying financial statements is based upon estimates and assumptions which are subject to change within the measurement period (up to one year from the acquisition date as prescribed in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805 - Business Combinations). The preliminary allocation of the purchase price is based on the estimated fair values of the assets acquired and liabilities assumed by major class related to the AATI acquisition and are reflected, as of the acquisition date, in the accompanying financial statements as follows (in thousands):

6

Table of Contents

Estimated fair value of assets acquired	As of January 9, 2012
Cash	\$42,605
Short-term investments	20,900
Accounts receivable	10,962
Inventory	15,470
Deferred tax assets	18,358
Property, plant and equipment	3,693
Other assets	2,139
Identifiable intangible assets	40,240
Goodwill	138,742
Total assets acquired	293,109
Liabilities assumed	(15,765)
Estimated fair value of assets acquired	\$277,344

The preliminary amount of the AATI purchase price allocated to goodwill of \$138.7 million (including immaterial measurement period adjustments recognized) represents the expected synergies from cost efficiencies and cross-selling opportunities. The Company expects that substantially all of the goodwill recognized as a result of the AATI acquisition will not be deductible for tax purposes.

The preliminary amount of the AATI purchase price allocated to identifiable intangible assets recognized in the acquisition of AATI and the respective useful lives of such intangible assets as of January 9, 2012 were as follows (in thousands):

	Fair Value	Estimated Useful Life (Years)
Customer relationships	\$21,200	4.7
Developed technology	15,500	5.0
In process research and development ("IPR&D")	1,540	TBD
Trade name	900	5.0
Backlog	1,100	0.3
Total identifiable intangible assets	\$40,240	

Customer relationships represent the fair value of established relationships with original equipment manufacturers and distributors. Developed technology primarily represents the fair value of acquired AATI patented and unpatented technologies related to product designs. IPR&D represents the fair value of incomplete AATI research and development projects that had not reached technological feasibility but are expected to generate future economic benefit as of the acquisition date, January 9, 2012. Because of the uncertainty related to the completion of these projects, the Company has determined that the amortization period will be established when the projects reach technological feasibility or are discontinued. If a project is discontinued or fails to meet technological feasibility, the value associated with that project will be written off in the period the determination is made. The trade name line item in the table above represents the brand and name recognition associated with the marketing of AATI products and was determined to have a finite life. Backlog represents the fair value of AATI unfilled firm orders as of the acquisition date. All intangible assets acquired in connection with the AATI acquisition will be amortized on a straight-line basis over their respective weighted average amortization period. The estimated fair values of the intangible assets acquired were primarily determined using the income approach based on significant inputs that were not observed. The Company considers the fair value of each of the acquired intangible assets to be Level 3 assets due to the significant estimates and assumptions used by management in establishing the estimated fair values. See Note 4, Fair Value in

these Notes to the Consolidated Financial Statements for the definition of Level 3 assets.

Net revenue and net income for AATI have been included in the consolidated statements of operations from the acquisition date through the end of the fiscal quarter on June 29, 2012. The impact of AATI's ongoing operations on the Company's net revenue and net income were not significant for the three and nine months ended June 29, 2012. The Company recognized transaction related costs associated with the AATI acquisition of approximately \$9.8 million, including arbitration costs, during the nine

7

Table of Contents

months ended June 29, 2012 which were included within the sales, administrative and general expense line item on the statement of operations.

The unaudited pro forma financial results for the nine months ended June 29, 2012 and July 1, 2011 combine the unaudited historical results of Skyworks with the unaudited historical results of AATI for the nine months ended June 29, 2012 and July 1, 2011, respectively. The results include the effects of unaudited pro forma adjustments as if AATI was acquired at the beginning of the prior fiscal year, October 2, 2010. The unaudited pro forma results presented include amortization charges for acquired intangible assets, adjustments for increases in the fair value of acquired inventory, other charges and related tax effects. The pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisition. These unaudited results are presented for informational purposes only and are not necessarily indicative of future operations (in thousands, except per share amounts):

	Nine-months Ended	
	June 29, 2012	July 1, 2011
Revenue	\$1,163,908	\$1,085,248
Net income	\$156,729	\$115,536
Diluted earnings per common share	\$0.82	\$0.61

3. MARKETABLE SECURITIES

The Company accounts for its investment in marketable securities in accordance with ASC 320-Investments-Debt and Equity Securities, and classifies them as “available for sale.” At June 29, 2012, these securities included \$4.0 million of par value auction rate securities (“ARS”), with a carrying value of \$3.1 million as compared to the September 30, 2011 balances of \$3.2 million and \$2.3 million, respectively. The increase in the balances held at June 29, 2012 relates to ARS acquired as a result of the acquisition of AATI with a par and carrying value of approximately \$0.8 million. The difference between the par and carrying values is categorized as a temporary loss in other comprehensive income. The Company receives the scheduled interest payments in accordance with the terms of the securities and evaluates the appropriate accounting treatment in each period presented.

In addition to the ARS, the Company acquired \$20.9 million in US treasury bills as part of the acquisition of AATI on January 9, 2012. These securities matured or were sold prior to June 29, 2012.

4. FAIR VALUE

Fair value is the price that would be received from selling an asset for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides a hierarchy for inputs used in measuring fair value that prioritize the use of observable inputs over the use of unobservable inputs, when such observable inputs are available. The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by the Company.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observable inputs may result in a reclassification of assets and liabilities within the three levels of the hierarchy outlined above.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company measures certain assets and liabilities at fair value on a recurring basis such as our financial instruments, marketable securities and contingent consideration related to business combinations and recognizes transfers within the fair value hierarchy at the end of the fiscal quarter in which the change in circumstances that caused the transfer occurred. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three and nine months ended June 29, 2012.

Due to the illiquid markets for the Company's ARS, these securities are appropriately classified as a Level 3 asset.

Table of Contents

The Company has classified its contingent consideration, which is primarily related to the acquisition of SiGe Semiconductor Inc. ("SiGe") in fiscal 2011, as a Level 3 liability. The contingent consideration liabilities were primarily computed based on expected revenue to be generated by the acquired enterprises using a weighted probability income approach. Revenue and other assumptions used in the calculation require significant management judgment. Accordingly, the contingent consideration liabilities are classified as Level 3. The Company reassesses the fair value of the contingent consideration liabilities on a quarterly basis. Based on that assessment, the Company recognized a reduction of approximately \$5.4 million related to the actual calculation of the earn-out obligations during the three months ended June 29, 2012. The resulting gain was recorded in the selling, general and administrative line item on the statement of operations. The Company anticipates a cash payment of approximately \$52.9 million to settle the SiGe earn-out during the fourth fiscal quarter.

As of June 29, 2012, assets and liabilities recorded at fair value on a recurring basis consist of the following (in thousands):

	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market	\$201,212	\$201,212	\$—	\$—
Auction rate securities	3,093	—	—	3,093
Total	\$204,305	\$201,212	\$—	\$3,093
Liabilities				
Contingent consideration liability recorded for business combinations	\$53,986	\$—	\$—	\$53,986

The following table summarizes changes to the fair value of the ARS, which is a Level 3 asset (in thousands):

	Auction Rate Securities
Balance at September 30, 2011	\$2,288
Acquisition related additions	805
Balance at June 29, 2012	\$3,093

The following table summarizes changes to the fair value of the contingent consideration, which is a Level 3 liability (in thousands):

	Contingent Consideration
Balance at September 30, 2011	\$59,400
Changes in fair value	(5,414)
Balance at June 29, 2012	\$53,986

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company's non-financial assets and liabilities, such as goodwill, intangible assets, and other long lived assets resulting from business combinations are measured at fair value using income approach valuation methodologies at the date of acquisition and subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three and nine months ended June 29, 2012.

Table of Contents

5. INVENTORY

Inventory consists of the following (in thousands):

	As of June 29, 2012	September 30, 2011
Raw materials	\$26,429	\$18,565
Work-in-process	100,247	92,601
Finished goods	73,504	73,633
Finished goods held on consignment by customers	9,767	13,384
Total inventory	\$209,947	\$198,183

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consist of the following (in thousands):

	As of June 29, 2012	September 30, 2011
Land and improvements	\$12,009	\$11,024
Buildings and improvements	56,685	53,397
Furniture and fixtures	25,163	26,325
Machinery and equipment	586,787	568,563
Construction in progress	46,646	13,929
Total property, plant and equipment, gross	727,290	673,238
Accumulated depreciation	(461,251	) (421,873
Total property, plant and equipment, net	\$266,039	\$251,365

7. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows (in thousands):

	Goodwill
Balance as of September 30, 2011	\$663,041
Goodwill recognized through business combinations (Note 2)	138,742
Goodwill adjustments	3,630
Goodwill as of June 29, 2012	\$805,413

The increase in goodwill for the nine months ended June 29, 2012 resulted primarily from the acquisition of AATI as discussed in Note 2, Business Combinations in these Notes to the Consolidated Financial Statements. In addition, the Company recorded the final measurement period adjustment resulting in an increase to goodwill related to the acquisition of SiGe.

The Company tests its goodwill and non-amortizing trademarks for impairment annually as of the first day of its fourth fiscal quarter and in interim periods if certain events occur indicating the carrying value of goodwill or non-amortizing trademarks may be impaired. There were no indicators of impairment noted during the nine months ended June 29, 2012.

Table of Contents

Intangible assets consist of the following (in thousands):

	Weighted Average Amortization Period Remaining (Years)	As of June 29, 2012		As of September 30, 2011			
		Gross Carrying Amount	Net Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Net Accumulated Amortization	Net Carrying Amount
Customer relationships	3.7	\$78,710	\$ (32,570)	\$46,140	\$57,510	\$ (21,828)	\$35,682
Developed technology and other	4.0	87,066	(38,502)	48,564	70,046	(27,039)	43,007
IPR&D	1.8	6,050	(2,129)	3,921	4,510	(260)	4,250
Trademarks	Indefinite	3,869	—	3,869	3,869	—	3,869
Total intangible assets		\$175,695	\$ (73,201)	\$102,494	\$135,935	\$ (49,127)	\$86,808

The increase in intangible assets for the nine months ended June 29, 2012 resulted from the acquisition of AATI as discussed in Note 2, Business Combinations in these Notes to the Consolidated Financial Statements.

Annual amortization expense for the next five years related to intangible assets is expected to be as follows (in thousands):

	Remaining 2012	2013	2014	2015	2016	Thereafter
Amortization expense	\$8,106	\$28,445	\$23,264	\$20,466	\$16,247	\$2,097

8. BORROWING ARRANGEMENTS

On March 2, 2007, the Company issued \$200.0 million aggregate principal amount of convertible subordinated notes ("2007 Convertible Notes"). The offering contained two tranches. The first tranche consisted of \$100.0 million of 1.25% convertible subordinated notes due March 2010 (the "1.25% Notes") which have been retired. The second tranche consisted of \$100.0 million aggregate principal amount of 1.50% convertible subordinated notes due March 2012 (the "1.50% Notes"). During the nine months ended June 29, 2012, the Company redeemed and retired the remaining \$26.7 million of aggregate principal amount of the 1.50% Notes, paying a cash premium of \$21.4 million which was accounted for as a reacquisition of equity instruments in accordance with ASC 470-20 - Debt, Debt with Conversions and Other Options.

The following tables provide additional information about the Company's 2007 Convertible Notes (in thousands):

	As of	
	June 29, 2012	September 30, 2011
Equity component of the convertible notes outstanding	\$—	\$6,061
Principal amount of the convertible notes	\$—	\$26,677
Unamortized discount of the liability component	\$—	\$588
Net carrying amount of the liability component	\$—	\$26,089

Three-months Ended		Nine-months Ended	
June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011

Edgar Filing: SKYWORKS SOLUTIONS, INC. - Form 10-Q

Effective interest rate on the liability component	—	6.86	%	6.86	%	6.86	%
Cash interest expense recognized (contractual interest)	\$—	\$100		\$105		\$300	
Effective interest expense recognized	\$—	\$339		\$428		\$1,000	

Table of Contents

9. INCOME TAXES

Income tax provision consisted of the following components (in thousands):

	Three-months Ended		Nine-months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
United States income taxes	\$12,372	\$17,586	\$36,263	\$49,236
Foreign income taxes	441	2,625	3,513	4,368
Provision for income taxes	\$12,813	\$20,211	\$39,776	\$53,604

As of June 29, 2012, the United States Congress has not taken action to extend the federal tax credit available under the Internal Revenue Code for research and development. Accordingly, the income tax provision for the nine months ended June 29, 2012 does not include the impact of such research and development tax credits earned after December 31, 2011.

For the three and nine months ended June 29, 2012, the difference between the Company's effective tax rate and the 35% United States federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, the recognition of research and development tax credits earned, and the domestic production activities deduction, partially offset by an increase in the Company's tax expense related to a change in the Company's reserve for uncertain tax positions. For the three and nine months ended July 1, 2011, the difference between the Company's effective tax rate and the 35% United States federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate and the recognition of research and development tax credits earned.

On October 2, 2010, the Company expanded its presence in Asia by launching operations in Singapore. The Company operates under a tax holiday in Singapore, which is effective through September 30, 2020. The tax holiday is conditional upon the Company's compliance with meeting certain employment and investment thresholds in Singapore. The Company continues to be in compliance with such conditions as of the date that this quarterly report on Form 10-Q was filed.

In accordance with ASC 740 Income Taxes ("ASC 740"), management has determined that it is more likely than not that a portion of the Company's prior and current year income tax benefits will not be realized. Accordingly, as of June 29, 2012, the Company has maintained a valuation allowance of \$45.1 million. This valuation allowance is comprised of \$31.6 million related to United States state research and experimentation tax credits, of which \$5.5 million are state tax credits acquired from AATI in fiscal 2012, and \$13.5 million related to the Company's foreign deferred tax assets of which \$11.7 million were acquired from SiGe in fiscal 2011.

Realization of benefits from the Company's deferred tax assets, net of valuation allowance, is dependent upon generating United States source taxable income in the future. The existing valuation allowance could be reversed in the future to the extent that the related deferred tax assets no longer require a valuation allowance under the provisions of ASC 740.

The Company will continue to evaluate its valuation allowance in future periods and depending upon the outcome of that assessment, additional amounts could be reversed or recorded and recognized as an adjustment to income tax benefit or expense. Such adjustments could cause the Company's effective income tax rate to vary in future periods. The Company will need to generate \$203.1 million of United States federal taxable income in future years to utilize all of the Company's net operating loss carryforwards, research and experimentation tax credit carryforwards, and deferred income tax temporary differences, net of valuation allowance, as of June 29, 2012.

During the three months ended June 29, 2012, the Company increased its gross unrecognized tax benefits by \$4.0 million to \$52.1 million. Of the total unrecognized tax benefits at June 29, 2012, \$38.3 million would impact the effective tax rate, if recognized. The remaining unrecognized tax benefits would not impact the effective tax rate, if recognized, due to the Company's valuation allowance and certain positions which were required to be deferred. There are no positions that the Company anticipates could change within the next twelve months. The Company incurred \$0.6 million of interest related to unrecognized tax benefits during the nine months ended June 29, 2012. The Company's policy is to recognize accrued interest and penalties, if incurred, on any unrecognized tax benefits as a component of income tax expense.

Table of Contents

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time, various lawsuits, claims and proceedings have been, and may in the future be, instituted or asserted against the Company, including those pertaining to patent infringement, intellectual property, environmental, product liability and warranty, safety and health, employment and contractual matters.

Additionally, the semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties have asserted and may in the future assert patent, copyright, trademark and other intellectual property rights to technologies that are important to the Company's business and have demanded and may in the future demand that the Company license their technology. The outcome of any such litigation cannot be predicted with certainty and some such lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Generally speaking, intellectual property disputes often have a risk of injunctive relief, which, if imposed against the Company, could materially and adversely affect the Company's financial condition, or results of operations. From time to time the Company may also be involved in legal proceedings in the ordinary course of business. Legal costs are expensed as incurred.

On June 6 and 7, 2011, two putative stockholder class action lawsuits (Case No. 111CV202403 (the "Bushansky action") and Case No. 111CV202501 (the "Venette action"), respectively) were filed in California Superior Court in Santa Clara County naming AATI, members of AATI's board of directors, the Company and PowerCo Acquisition Corp. ("Merger Sub") as defendants. The lawsuits related to conduct surrounding the Company's acquisition of AATI. On July 26, 2011, the Court issued an order consolidating the Bushansky action and Venette action into a single, consolidated action captioned *In re Advanced Analogic Technologies Inc. Shareholder Litigation*, Lead Case No. 111CV202403, and designating an amended complaint filed on July 14, 2011 in the Venette action as the operative complaint in the litigation.

On November 30, 2011, following confidential arbitration proceedings in the Delaware Court of Chancery, the Company announced that it and AATI had amended their previously announced merger agreement whereby the Company would acquire AATI at a reduced price through a tender offer. The Company and AATI completed the transaction on January 9, 2012. On March 2, 2012, the Court stayed all discovery in the matter and ordered that Plaintiffs file an amended complaint by April 20, 2012.

On April 20, 2012, Plaintiffs filed an amended complaint ("First Amended Complaint") against each of the original defendants with the exception of Merger Sub. The First Amended Complaint alleges, among other things, that (1) members of AATI's board of directors breached their fiduciary duties by (a) failing to take steps to maximize the value of AATI to its public shareholders by failing to adequately consider potential acquirers, (b) agreeing to the merger for inadequate consideration on unfair terms; (c) causing the filing of a materially misleading Schedule 14D-9 that failed to (i) disclose a basis for the price reduction, (ii) describe the arbitration proceedings, and (iii) include any financial valuation or fairness opinion concerning whether the revised merger consideration was fair; and (d) causing the issuance of amendments to the Schedule 14D-9 that failed to respond adequately to the SEC's disclosure directives; and (2) Skyworks and AATI allegedly aided and abetted these purported breaches of fiduciary duties.

During the three and nine months ended June 29, 2012, the Company recorded a \$5.0 million charge to selling, general and administrative expenses to recognize a contingent liability associated with the probable settlement of a warranty claim. The Company has assessed the possibility of additional charges associated with the warranty claim and other outstanding litigation matters and has determined that there were no additional material losses that were reasonably possible of occurring. The Company monitors the status of these contingencies on an ongoing basis to ensure amounts are recognized and/or disclosed in our financial statements and footnotes as required by ASC 450,

Loss Contingencies.

Guarantees and Indemnifications

The Company has made no contractual guarantees for the benefit of third parties. However, the Company generally indemnifies its customers from third-party intellectual property infringement litigation claims related to its products, and, on occasion, also provides other indemnities related to product sales. In connection with certain facility leases, the Company has indemnified its lessors for certain claims arising from the Company's activities at the facility or out of the lease.

The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the state of Delaware. The duration of the indemnities varies, and in many cases is indefinite. The indemnities to customers in connection with product sales generally are subject to limits based upon the amount of the related product sales and in many cases are subject to geographic and other restrictions. In certain instances, the Company's indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities in

Table of Contents

the accompanying consolidated balance sheets and does not expect that such obligations will have a material adverse impact on its financial condition or results of operations.

11. COMMON STOCK REPURCHASE

On August 3, 2010, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to repurchase up to \$200.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. The Company did not repurchase any shares during the three months ended June 29, 2012. During the nine months ended June 29, 2012, the Company paid approximately \$12.4 million (including commissions) in connection with the repurchase of 750,000 shares of its common stock (paying an average price of \$16.54 per share). As of June 29, 2012, \$117.6 million remained available under the existing share repurchase authorization.

12. EARNINGS PER SHARE

(In thousands, except per share amounts)

	Three-months Ended		Nine-months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Net income	\$49,317	\$51,548	\$140,476	\$162,376
Weighted average shares outstanding – basic	186,269	183,750	185,144	182,642
Dilutive effect of equity based awards	6,188	5,840	5,461	6,155
Dilutive effect of convertible debt	—	1,790	446	1,831
Weighted average shares outstanding – diluted	192,457	191,380	191,051	190,628
Net income per share – basic	\$0.26	\$0.28	\$0.76	\$0.89
Net income per share - diluted	\$0.26	\$0.27	\$0.74	\$0.85

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share includes the dilutive effect of equity based awards and the convertible debt using the treasury stock method.

Equity based awards exercisable for approximately 3.5 million shares and 2.8 million shares were outstanding but not included in the computation of earnings per share for the three months ended June 29, 2012 and July 1, 2011, respectively, as their effect would have been anti-dilutive.

Equity based awards exercisable for approximately 4.9 million shares and 1.5 million shares were outstanding but not included in the computation of earnings per share for the nine months ended June 29, 2012 and July 1, 2011, respectively, as their effect would have been anti-dilutive.

13. RESTRUCTURING AND OTHER CHARGES

During the nine months ended June 29, 2012, the Company incurred restructuring charges related primarily to the reduction of redundancies associated with the acquisition of AATI. The Company recorded approximately \$5.8 million related to employee severance and \$0.5 million related to lease termination costs associated with AATI restructuring actions during the nine months ended June 29, 2012. In total, the Company expects to incur approximately \$6.4 million in costs related to AATI restructuring activities.

During the fiscal year ended September 30, 2011, the Company implemented a restructuring plan to reduce redundancies associated with the acquisition of SiGe. A \$0.7 million charge to restructuring was recorded during the

nine months ended June 29, 2012 related to the SiGe restructuring activities. The Company recognized \$1.5 million related to SiGe restructuring during the three and nine months ended July 1, 2011.

The Company made cash payments related to restructuring activities of approximately \$2.6 million and \$6.9 million during the three and nine months ended June 29, 2012, respectively.

Table of Contents

Activity and liability balances related to the Company's restructuring actions are as follows (in thousands):

	Facility Closings	License and Software Write-offs and Other	Workforce Reductions	Total
Restructuring balance, September 30, 2011	\$819	\$707	\$502	\$2,028
Charged to costs and expenses	553	—	7,199	7,752
Cash payments	(145	) (299	) (6,480	) (6,924
Other	—	4	—	4
Restructuring balance, June 29, 2012	\$1,227	\$412	\$1,221	\$2,860

Cash payments related to the restructuring plans are expected to be significantly completed in fiscal 2012.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report and other documents we have filed with the Securities and Exchange Commission (“SEC”) contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and are subject to the “safe harbor” created by those sections. Words such as “believes,” “expects,” “may,” “will,” “would,” “should,” “could,” “seek,” “in,” “plans,” “potential,” “continue,” “estimates,” “anticipates,” “predicts,” and similar expressions or variations or negatives of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements involve inherent risks and uncertainties and actual results and outcomes may differ materially and adversely from the results and outcomes discussed in or anticipated by the forward-looking statements. A number of important factors could cause actual results to differ materially and adversely from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in this Current Report on Form 10-Q and our 2011 10-K, as amended by Amendment No. 1 to the 2011 10-K, filed with the SEC on January 30, 2012, under the heading “Risk Factors” and in the other documents we have filed with the SEC in evaluating our forward-looking statements. We have no plans, and undertake no obligation, to revise or update our forward-looking statements to reflect any event or circumstance that may arise after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. In this document, the words “we,” “our,” “ours” and “us” refer only to Skyworks Solutions, Inc. and its subsidiaries and not any other person or entity.

RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED JUNE 29, 2012 AND JULY 1, 2011.

The following table sets forth the results of our operations expressed as a percentage of net revenue for the three and nine months ended June 29, 2012 and July 1, 2011:

	Three-months Ended		Nine-months Ended		
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011	
Net revenue	100.0	% 100.0	% 100.0	% 100.0	%
Cost of goods sold	57.5	56.1	57.3	56.2	
Gross profit	42.5	43.9	42.7	43.8	
Operating expenses:					
Research and development	14.4	12.1	13.6	11.9	
Selling, general and administrative	9.6	10.0	10.5	9.7	
Amortization of intangibles	2.2	1.1	2.1	0.7	
Restructuring and other charges	0.3	0.4	0.7	0.1	
Total operating expenses	26.5	23.6	26.9	22.4	
Operating income	16.0	20.3	15.8	21.4	
Interest expense	—	(0.1)	(0.1)	(0.1))
Gain on early retirement of convertible debt	—	—	—	—)
Other income (loss), net	—	—	—	—	
Income before income taxes	16.0	20.2	15.7	21.3	
Provision for income taxes	3.3	5.7	3.5	5.3	

Net income	12.7	%	14.5	%	12.2	%	16.0	%
------------	------	---	------	---	------	---	------	---

16

Table of Contents

GENERAL

During the three and nine months ended June 29, 2012, certain key factors contributed to our overall results of operations, financial position and cash flows. More specifically:

Net revenue increased by 9% and 13% for the three and nine months ended June 29, 2012, respectively when compared to the corresponding periods in the prior fiscal year. These increases were driven by our expanding product portfolio which is the result of both our acquisitions of SiGe Semiconductor, Inc. ("SiGe") in June 2011 and Advanced Analogic Technologies Inc. ("AATI") in January 2012 as well as our internal development of products for new vertical markets including medical, automotive, military and industrial. In addition we benefited from our ability to capture an increasing share of the rising radio frequency ("RF") content per device as major smartphone upgrades continue to displace traditional 2G cellular phones.

We completed the acquisition of AATI which further expands our broad portfolio of analog semiconductor products including battery chargers, DC/DC converters, voltage regulators and LED drivers and accelerates our entry into new vertical markets.

We generated \$235 million in cash from operations, invested \$209 million in cash (net of cash and short-term investments acquired) in the acquisition of AATI and \$63 million in cash in manufacturing capacity expansion, retired our remaining debt, consisting of convertible notes for \$48 million in cash and repurchased 750 thousand shares of our common stock for approximately \$12 million resulting in a cash and equivalents balance of \$327 million at June 29, 2012.

NET REVENUE

	Three-months Ended			Nine-months Ended		
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011
(dollars in thousands)						
Net revenue	\$389,038	9.3%	\$356,075	\$1,147,468	12.9%	\$1,016,606

We market and sell our products directly to original equipment manufacturers of communication electronic products, third-party original design manufacturers, and contract manufacturers, and indirectly through electronic components distributors. We periodically enter into revenue generating arrangements that leverage our broad intellectual property portfolio by licensing or selling our non-core patents or other intellectual property. We anticipate continuing this intellectual property strategy in future periods.

We generated net revenue of \$389.0 million for the three months ended June 29, 2012, as compared to \$356.1 million for the corresponding period in fiscal 2011, an increase of \$33.0 million or 9.3%. Net revenue increased by 12.9% or \$130.9 million to \$1,147.5 million for the nine months ended June 29, 2012, as compared to \$1,016.6 million for the corresponding period in fiscal 2011. The increase in revenue was primarily driven by our expanding product portfolio which is the result of both our acquisitions of SiGe and AATI as well as our internal development of products for new vertical markets including medical, automotive, military and industrial. In addition we also benefited from our ability to capture an increasing share of the rising RF content per device as major smartphone upgrades continue to displace traditional 2G cellular phones.

GROSS PROFIT

	Three-months Ended			Nine-months Ended		
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011

Edgar Filing: SKYWORKS SOLUTIONS, INC. - Form 10-Q

(dollars in thousands)

Gross profit	\$165,302	5.8%	\$156,225	\$489,424	9.8%	\$445,744	
% of net revenue	42.5	%	43.9	% 42.7	%	43.8	%

Gross profit represents net revenue less cost of goods sold. Cost of goods sold consists primarily of purchased materials, labor and overhead (including depreciation and share-based compensation expense) associated with product manufacturing. Erosion of average selling prices of established products is typical of the semiconductor industry. Consistent with trends in the industry, we anticipate that average selling prices for our established products will continue to decline at a normalized rate of 5 to 10 percent

17

Table of Contents

per year. As part of our normal course of business, we mitigate the gross margin impact of declining average selling prices with efforts to increase unit volumes, reduce material costs and lower manufacturing costs of existing products and by introducing new and higher value-added products.

Gross profit was \$9.1 million greater for the three months ended June 29, 2012 as compared to the corresponding period in fiscal 2011. The increase in gross profit was the result of higher unit volumes and lower per unit material and manufacturing costs with an aggregate gross profit benefit of approximately \$31.8 million. These benefits were offset by the erosion of average selling price, changes in product mix, the impact of the fair value step-up of acquired inventory related to AATI and higher share-based compensation expense having a combined unfavorable impact on gross profit of approximately \$22.7 million. As a result of these negative impacts, gross profit margin decreased from 43.9% for the three months ended July 1, 2011 to 42.5% for the three months ended June 29, 2012.

Gross profit was \$43.7 million greater for the nine months ended June 29, 2012 as compared to the corresponding period in fiscal 2011. The increase in gross profit was the result of higher unit volumes and lower per unit material and manufacturing costs with an aggregate gross profit benefit of approximately \$122.6 million. These benefits were offset by the erosion of average selling price, changes in product mix, the impact of the fair value step-up of acquired inventory primarily related to AATI and SiGe and higher share-based compensation expense having a combined unfavorable impact on gross profit of approximately \$78.9 million. As a result of these negative impacts, gross profit margin decreased from 43.8% for the nine months ended July 1, 2011 to 42.7% for the nine months ended June 29, 2012.

During the nine months ended June 29, 2012, we continued to benefit from higher contribution margins associated with the licensing and/or sale of intellectual property.

RESEARCH AND DEVELOPMENT

	Three-months Ended			Nine-months Ended			
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011	
(dollars in thousands)							
Research and development	\$56,050	30.1%	\$43,067	\$155,977	28.7%	\$121,228	
% of net revenue	14.4	%	12.1	% 13.6	%	11.9	%

Research and development expenses consist primarily of direct personnel costs including share-based compensation expense, costs for pre-production evaluation and testing of new devices, masks, engineering prototypes and design tool costs.

The 30.1% and 28.7% increases in research and development expenses for the three and nine months ended June 29, 2012, respectively, when compared to the corresponding period in fiscal year 2011, are primarily attributable to higher head count and related compensation, including share-based compensation expense resulting from the acquisition of SiGe and AATI, and to a lesser extent, to increased internal product design and development activity for our target markets.

SELLING, GENERAL AND ADMINISTRATIVE

	Three-months Ended			Nine-months Ended			
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011	
(dollars in thousands)							
Selling, general and administrative	\$37,463	5.7%	\$35,451	\$120,609	22.9%	\$98,167	
% of net revenue	9.6	%	10.0	% 10.5	%	9.7	%

Selling, general and administrative expenses include legal, accounting, treasury, human resources, information systems, customer service, bad debt expense, sales commissions, share-based compensation expense, advertising, marketing, costs associated with business combinations completed or contemplated during the period and other costs.

Selling, general and administrative expenses increased by 5.7% and 22.9% for the three and nine months ended June 29, 2012, respectively, as compared to the corresponding period in fiscal 2011. The increase for the three months ended June 29, 2012 is primarily related to the incremental headcount and related compensation expense (including share-based compensation) and a \$5.3 million charge related to the resolution of contractual disputes. These charges are partially offset by the change in fair value of the contingent consideration liabilities of \$5.4 million, primarily related to the expected SiGe earn-out payment. The Company

Table of Contents

anticipates making a cash payment of approximately \$52.9 million for the SiGe earn-out during the fourth fiscal quarter of 2012.

The increase for the nine months ended June 29, 2012 is primarily related to the incremental headcount and related compensation expense (including share-based compensation), increased legal expense of \$9.9 million primarily associated with the acquisition of AATI and \$5.8 million in charges related to the resolution of contractual disputes. These charges were partially offset by the change in fair value of the contingent consideration liabilities of \$5.4 million associated with the 2011 acquisitions, as noted above.

AMORTIZATION OF INTANGIBLES

	Three-months Ended			Nine-months Ended			
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011	
(dollars in thousands)							
Amortization of intangibles	\$8,608	114.9%	\$4,006	\$24,260	234.8%	\$7,246	
% of net revenue	2.2	%	1.1	% 2.1	%	0.7	%

The increases in amortization expense for the three and nine months ended June 29, 2012 are primarily related to the intangible assets that were recognized in connection with our acquisition of SiGe and AATI.

RESTRUCTURING AND OTHER CHARGES

	Three-months Ended			Nine-months Ended			
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011	
(dollars in thousands)							
Restructuring and other charges	\$1,137	(22.9)%	\$1,475	\$7,752	425.6%	\$1,475	
% of net revenue	0.3	%	0.4	% 0.7	%	0.1	%

The restructuring and other charges for the three months ended June 29, 2012 relate primarily to the restructuring plan to reduce redundancies associated with the acquisition of AATI.

The increase in restructuring and other charges for the nine months ended June 29, 2012 are primarily related to the restructuring plan to reduce redundancies associated with the acquisitions of AATI and SiGe. The restructuring and other charges for the three and nine months ended July 1, 2011 relate to the restructuring plan associated with the acquisition of SiGe.

PROVISION FOR INCOME TAXES

	Three-months Ended			Nine-months Ended			
	June 29, 2012	Change	July 1, 2011	June 29, 2012	Change	July 1, 2011	
(dollars in thousands)							
Provision for income taxes	\$12,813	(36.6)%	\$20,211	\$39,776	(25.8)%	\$53,604	
% of net revenue	3.3	%	5.7	% 3.5	%	5.3	%

The provision for income taxes was \$12.8 million (\$12.4 million and \$0.4 million for United States and foreign income taxes, respectively) and \$39.8 million (\$36.3 million and \$3.5 million for United States and foreign income taxes, respectively) for the three and nine months ended June 29, 2012, respectively. The effective tax rates for the three and nine months ended June 29, 2012 were 20.6% and 22.1%, respectively, as compared to 28.2% and 24.8% for the three and nine months ended July 1, 2011, respectively.

The difference between our effective tax rate for the three months ended June 29, 2012 of 20.6% and the effective tax rate for the three months ended July 1, 2011 of 28.2% is primarily due to an increase in our recognition of foreign earnings in lower tax jurisdictions.

The difference between our year to date effective tax rate of 22.1% and the federal statutory rate of 35% is principally due to the recognition of foreign earnings in lower tax jurisdictions, the recognition of research and development tax credits earned, and the domestic production activities deduction, partially offset by an increase in our tax expense related to a change in our reserve for

Table of Contents

uncertain tax positions.

LIQUIDITY AND CAPITAL RESOURCES

(dollars in thousands)	Nine-months Ended	
	June 29, 2012	July 1, 2011
Cash and cash equivalents at beginning of period (1)	\$410,087	\$453,257
Net cash provided by operating activities	234,885	243,019
Net cash used in investing activities	(272,066)	(335,200)
Net cash used in financing activities	(45,808)	(51,431)
Cash and cash equivalents at end of period (1)	\$327,098	\$309,645

(1)Excludes restricted cash balances

Cash Flow from Operating Activities:

Cash flow from operating activities consists of net income for the period adjusted for certain non-cash items and changes in certain operating assets and liabilities. During the nine months ended June 29, 2012, we generated \$234.9 million of cash flow from operating activities, a decrease of \$8.1 million when compared to \$243.0 million generated during the nine months ended July 1, 2011. The decrease in cash flow from operating activities during the nine months ended June 29, 2012 was related to lower net income combined with a net cash outflow from changes in operating assets and liabilities partially offset by an increase in non-cash amortization of intangibles, depreciation and share-based compensation expense. Specifically, the changes in operating assets were increases of \$58.5 million in accounts receivable due to the timing of customer shipments triggered by a need to respond to key customer program ramp-ups and \$6.2 million in other current assets primarily relating to taxes and pre-paid assets. The offsetting changes in operating liabilities were increases of \$17.1 million in other current and long-term liabilities primarily related to long-term tax liabilities and an accrual for a probable legal settlement (which is fully described in Note 10 of the Notes to the Consolidated Financial Statements contained in Part 1, Item 1 in this Quarterly Report on Form 10-Q) and accounts payable of \$10.2 million due to the timing of vendor payments.

Cash Flow from Investing Activities:

Cash flow from investing activities consists of cash paid for acquisitions, net of cash acquired, capital expenditures, cash received from the sale of capital assets and the sale and maturity of short-term and other investments. Cash flow used in investing activities was \$272.1 million during the nine months ended June 29, 2012, compared to \$335.2 million during the nine months ended July 1, 2011. Cash used in investing activities decreased primarily because we used more cash to pay for the acquisition of SiGe in 2011 than we did for the acquisition of AATI in 2012, in each instance, net of cash acquired and reduced capital expenditures between the periods. In the nine months ended June 29, 2012 we used \$229.6 million of cash, net of cash acquired, for the acquisition of AATI. In addition, during the nine months ended June 29, 2012 we invested \$63.3 million in capital expenditures, primarily related to the purchase of manufacturing equipment to support increased production at our assembly and test facility in Mexicali, Mexico and to a lesser extent, our wafer fabrication facilities located in California and Massachusetts. During the nine months ended July 1, 2011, we invested \$85.4 million in capital expenditures. Capital expenditures for the nine months ended July 1, 2011 were higher as we invested in expanding assembly and test capacity at our manufacturing facilities in anticipation of accelerating demand from key customers. Our uses of cash during the nine months ended June 29, 2012 were partially offset by \$20.9 million in proceeds we received upon the sale and maturity of short-term investments acquired as part of our acquisition of AATI during the nine months ended June 29, 2012.

Cash Flow from Financing Activities:

Cash flows from financing activities consist primarily of cash transactions related to our debt and equity. During the nine months ended June 29, 2012, we had net cash outflows from financing activities of \$45.8 million, compared to

net cash outflows from financing activities of \$51.4 million during the nine months ended July 1, 2011. During the nine months ended June 29, 2012, we had the following significant uses of cash:

- \$48.1 million in connection with the redemption and retirement of the remaining \$26.7 million aggregate principal amount of our 1.50% convertible subordinated notes due March 2012;
- \$16.5 million related to payroll tax withholdings on the vesting of employee performance and restricted stock awards; and
- \$12.4 million related to our repurchase of approximately 750,000 shares of our common stock pursuant to the share repurchase program approved by our Board of Directors on August 3, 2010.

These uses of cash were partially offset by the net proceeds from employee stock option exercises of \$22.2 million and an excess

Table of Contents

tax benefit from stock option exercises of \$8.9 million during the nine months ended June 29, 2012.

Liquidity:

Cash and cash equivalent balances (excluding restricted cash which is used to collateralize outstanding letters of credit for insurance and lease obligations) decreased by \$83.0 million from \$410.1 million at September 30, 2011 to \$327.1 million at June 29, 2012. During the nine months ended June 29, 2012, we used \$229.6 million in cash, net of cash acquired, in connection with the acquisition of AATI and paid cash of \$63.3 for capital expenditures and \$48.1 million to retire the remaining \$26.7 million of aggregate principal amount of our 1.50% convertible subordinated notes due March 2012. Based on our historical results of operations, we expect that our cash and cash equivalents on hand and the cash we expect to generate from operations will be sufficient to fund our research and development, capital expenditures, \$54.0 million in contingent consideration for our completed acquisitions, which will be substantially paid in the three months ended September 28, 2012, working capital and other cash requirements for at least the next 12 months. However, we cannot be certain that our cash from operations will be available in the future to fund all of our capital and operating requirements. In addition, any strategic investments and acquisitions that we may make may require additional capital resources. If we are unable to obtain sufficient cash or capital to meet our capital needs on a timely basis and on favorable terms, our business and operations could be materially and adversely affected.

Our invested cash balances primarily consist of money market funds where the underlying securities primarily consist of United States treasury obligations, United States agency obligations and repurchase agreements collateralized by United States Government and agency obligations. Our invested cash balances also include time deposits and certificates of deposit.

Our cash, cash equivalents and restricted cash balance of \$327.9 million at June 29, 2012 consisted of \$217.1 million held domestically and \$110.8 million held by foreign subsidiaries. Of the amount of cash, cash equivalents and restricted cash held by our foreign subsidiaries at June 29, 2012, approximately \$31.5 million is indefinitely reinvested and would be subject to material tax effects if repatriated.

CONTRACTUAL OBLIGATIONS

Our contractual obligations disclosure in our 2011 10-K, as amended by Amendment No. 1 to the 2011 10-K, filed with the SEC on January 30, 2012, have not materially changed since we filed that report.

OFF-BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet arrangements as defined in SEC Regulation S-K- 303(a)(4)(ii).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board revised the authoritative guidance for comprehensive income to require an entity to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminated the option to present the components of other comprehensive income as part of the statement of equity. The guidance will be effective for us beginning in the first quarter of fiscal 2013 and should be applied retrospectively. The adoption of the guidance will impact the presentation of the financial statements but will not impact our financial position, results of operations or cash flows.

In September 2011, the Financial Accounting Standards Board revised the authoritative guidance for goodwill and other intangibles to allow entities the ability to first assess the qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The guidance will be effective for us beginning in

fiscal 2013. The adoption of this guidance will not impact our annual goodwill impairment test, financial position or results of operation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are subject to investment risk, interest rate risk, and foreign exchange rate risk as described below.

Investment and Interest Rate Risk

Our exposure to interest rate and general market risks relates principally to our investment portfolio, which as of June 29, 2012 consisted of the following (in thousands):

Table of Contents

Cash and cash equivalents (time deposits and money market funds)	\$327,098
Restricted cash (time deposits and certificates of deposit)	817
Carrying value of available for sale securities (auction rate securities)	3,093
	\$331,008

The main objective of our investment activities is the liquidity and preservation of capital. In general, our cash and cash equivalent investments have short-term maturity periods which dampen the impact of significant market or interest rate risk. Credit risk associated with our investments is not material as our investment policy prescribes high credit quality standards and limits the amount of credit exposure to any one issuer. We currently do not use derivative instruments for trading, speculative or investment purposes; however, we may use derivatives in the future.

We are subject to overall financial market risks, such as changes in market liquidity, credit quality and interest rates. Securities that are available for sale carry a longer maturity period (in some cases original contractual maturities exceed ten years).

Given the low interest rate environment, the objectives of our investment activities, and the relatively low interest income generated from our cash and cash equivalents and other investments, we do not believe that market, investment or interest rate risks pose material exposures to our current business or results of operations. However, this may change in the future.

Exchange Rate Risk

Substantially all sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, thereby reducing the impact of foreign exchange rate fluctuations on our results. A small percentage of our international operational expenses are denominated in foreign currencies. Exchange rate volatility could negatively or positively impact those operating costs. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Fluctuations in currency exchange rates could have a greater effect on our business in the future to the extent our expenses increasingly become denominated in foreign currencies.

Item 4. Controls and Procedures.**Evaluation of disclosure controls and procedures.**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 29, 2012. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on management’s evaluation of our disclosure controls and procedures as of June 29, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal controls over financial reporting.

There are no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the period covered by this report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Legal Matters

From time to time, various lawsuits, claims and proceedings have been, and may in the future be, instituted or asserted against the Company, including those pertaining to patent infringement, intellectual property, environmental, product liability and warranty, safety and health, employment and contractual matters.

Additionally, the semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties have asserted and may in the future assert patent, copyright, trademark and other intellectual property rights to technologies that are important to the Company's business and have demanded and may in the future demand that the Company license their technology. The outcome of any such litigation cannot be predicted with certainty and some such lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Generally speaking, intellectual property disputes often have a risk of injunctive relief, which, if imposed against the Company, could materially and adversely affect the Company's financial condition, or results of operations. From time to time the Company may also be involved in legal proceedings in the ordinary course of business.

On June 6 and 7, 2011, two putative stockholder class action lawsuits (Case No. 111CV202403 (the "Bushansky action") and Case No. 111CV202501 (the "Venette action"), respectively) were filed in California Superior Court in Santa Clara County naming AATI, members of AATI's board of directors, the Company and PowerCo Acquisition Corp. ("Merger Sub") as defendants. The lawsuits related to conduct surrounding the Company's acquisition of AATI. On July 26, 2011, the Court issued an order consolidating the Bushansky action and Venette action into a single, consolidated action captioned *In re Advanced Analogic Technologies Inc. Shareholder Litigation*, Lead Case No. 111CV202403, and designating an amended complaint filed on July 14, 2011 in the Venette action as the operative complaint in the litigation.

On November 30, 2011, following confidential arbitration proceedings in the Delaware Court of Chancery, the Company announced that it and AATI had amended their previously announced merger agreement whereby the Company would acquire AATI at a reduced price through a tender offer. The Company and AATI completed the transaction on January 9, 2012. On March 2, 2012, the Court stayed all discovery in the matter and ordered that Plaintiffs file an amended complaint by April 20, 2012.

On April 20, 2012, Plaintiffs filed an amended complaint ("First Amended Complaint") against each of the original defendants with the exception of Merger Sub. The First Amended Complaint alleges, among other things, that (1) members of AATI's board of directors breached their fiduciary duties by (a) failing to take steps to maximize the value of AATI to its public shareholders by failing to adequately consider potential acquirers, (b) agreeing to the merger for inadequate consideration on unfair terms; (c) causing the filing of a materially misleading Schedule 14D-9 that failed to (i) disclose a basis for the price reduction, (ii) describe the arbitration proceedings, and (iii) include any financial valuation or fairness opinion concerning whether the revised merger consideration was fair; and (d) causing the issuance of amendments to the Schedule 14D-9 that failed to respond adequately to the SEC's disclosure directives; and (2) Skyworks and AATI allegedly aided and abetted these purported breaches of fiduciary duties.

During the three and nine months ended June 29, 2012, the Company recorded a \$5.0 million charge to selling, general and administrative expenses to recognize a contingent liability associated with the probable settlement of a warranty claim. The Company has assessed the possibility of additional charges associated with the warranty claim and other outstanding litigation matters and has determined that there were no additional material losses that were reasonably possible of occurring. The Company monitors the status of these contingencies on an ongoing basis to

ensure amounts are recognized and/or disclosed in our financial statements and footnotes as required by ASC 450, Loss Contingencies.

Item 1A. Risk Factors.

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, filed with the SEC on November 28, 2011 (the "2011 10-K"), as amended by Amendment No. 1 to the 2011 10-K, filed with the SEC on January 30, 2012, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in the 2011 10-K as amended by Amendment No. 1 to the 2011 10-K, filed with the SEC on January 30, 2012.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information regarding repurchases of common stock made during the three months ended June 29, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximately Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
03/31/12-04/27/12	13,743	\$26.40 (2)	—	\$117.6 million
04/28/12-05/25/12	20,831	\$27.79 (2)	—	\$117.6 million
05/26/12-06/29/12	14,275	\$26.94 (2)	—	\$117.6 million

(1) Share repurchase program approved by the Board of Directors on August 3, 2010 authorizing the repurchase of up to \$200.0 million of our common stock from time to time on the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements.

(2) Shares of common stock reported in the table above were repurchased by us at the fair market value of the common stock as of the period stated above, in connection with the satisfaction of tax withholding obligations under restricted stock agreements.

Table of Contents

Item 6. Exhibits

Exhibit Number	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
31.1	Certification of the Company's Chief Executive Officer pursuant to Securities Exchange Act of 1934, as amended, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Company's Chief Financial Officer pursuant to Securities Exchange Act of 1934, as amended, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS*	XBRL Instance Document					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKYWORKS SOLUTIONS, INC.

Date: August 1, 2012

By: /s/ David J. Aldrich
David J. Aldrich, President and Chief
Executive Officer (Principal Executive Officer)

By: /s/ Donald W. Palette
Donald W. Palette, Chief Financial Officer
Vice President (Principal Accounting and Financial Officer)