SKYWORKS SOLUTIONS, INC.
Form 10-Q
February 07, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2016
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 001-05560
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. þ 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). þ 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 þ	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 þ No

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

Class	Outstanding as of January 23, 2017
Common Stock, par value $.25 per share	184,918,356

SKYWORKS SOLUTIONS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 30, 2016

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except per share amounts)

	Three Months Ended	
	December 30, 2016	January 1, 2016
Net revenue	$914.3	$ 926.8
Cost of goods sold	450.4	454.7
Gross profit	463.9	472.1
Operating expenses:		
Research and development	82.0	81.5
Selling, general and administrative	50.9	51.7
Amortization of intangibles	8.5	8.4
Restructuring and other charges	0.6	—
Total operating expenses	142.0	141.6
Operating income	321.9	330.5
Other expense, net	(0.8)	(0.8)
Merger termination fee	—	88.5
Income before income taxes	321.1	418.2
Provision for income taxes	63.3	62.9
Net income	$257.8	$ 355.3
Earnings per share:		
Basic	$1.39	$ 1.87
Diluted	$1.38	$ 1.82
Weighted average shares:		
Basic	184.8	190.4
Diluted	187.3	194.7
Cash dividends declared and paid per share	$0.28	$ 0.26

See accompanying Notes to Consolidated Financial Statements.

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SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in millions)

	Three Months Ended	
	December 30, 2016	January 1, 2016
Net income	$257.8	$ 355.3
Other comprehensive income		
Fair value of marketable securities	0.9	—
Foreign currency translation adjustment	1.0	—
Comprehensive income	$259.7	$ 355.3

See accompanying Notes to Consolidated Financial Statements.

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

	As of December 30, 2016	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$1,350.5	$ 1,083.8
Receivables, net of allowance for doubtful accounts of $0.6 and $0.5, respectively	368.4	416.6
Inventory	422.8	424.0
Other current assets	56.8	77.7
Total current assets	2,198.5	2,002.1
Property, plant and equipment, net	801.5	806.3
Goodwill	880.4	873.3
Intangible assets, net	74.9	67.0
Deferred tax assets, net	54.4	54.1
Other assets	56.0	52.6
Total assets	$4,065.7	$ 3,855.4
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$161.5	$ 110.4
Accrued compensation and benefits	57.1	42.3
Other current liabilities	84.8	57.5
Total current liabilities	303.4	210.2
Long-term tax liabilities	72.4	71.8
Other long-term liabilities	29.6	32.0
Total liabilities	405.4	314.0
Commitments and contingencies (Note 7)		
Stockholders’ equity:		
Preferred stock, no par value: 25.0 shares authorized, no shares issued	—	—
Common stock, $0.25 par value; 525.0 shares authorized; 224.3 shares issued and 184.8 shares outstanding as of December 30, 2016, and 222.5 shares issued and 184.9 shares outstanding as of September 30, 2016	46.2	46.2
Additional paid-in capital	2,748.0	2,686.0
Treasury stock, at cost	(1,594.4)	(1,443.5)
Retained earnings	2,469.5	2,263.6
Accumulated other comprehensive loss	(9.0)	(10.9)
Total stockholders’ equity	3,660.3	3,541.4
Total liabilities and stockholders’ equity	$4,065.7	$ 3,855.4

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended December 30, 2016	January 1, 2016
Cash flows from operating activities:		
Net income	$ 257.8	$ 355.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	21.6	23.3
Depreciation	55.3	51.5
Amortization of intangible assets	8.5	8.4
Contribution of common shares to savings and retirement plans	—	2.7
Deferred income taxes	1.2	2.0
Excess tax benefit from share-based compensation	(21.5)	(37.3)
Changes in assets and liabilities net of acquired balances:		
Receivables, net	49.3	3.1
Inventory	0.6	(19.0)
Other current and long-term assets	12.3	11.8
Accounts payable	50.9	(96.2)
Other current and long-term liabilities	59.9	39.7
Net cash provided by operating activities	495.9	345.3
Cash flows from investing activities:		
Capital expenditures	(50.1)	(79.5)
Payments for acquisitions, net of cash acquired	(13.7)	—
Maturity of investments	3.2	—
Net cash used in investing activities	(60.6)	(79.5)

Cash flows from financing activities:						
Excess tax benefit from share-based compensation	21.5			37.3		
Repurchase of common stock - payroll tax withholdings on equity awards	(44.4		)	(71.9		)
Repurchase of common stock - share repurchase program	(106.5		)	—		
Dividends paid	(52.2		)	(50.2		)
Net proceeds from exercise of stock options	14.7			8.6		
Payments of contingent consideration	(1.7		)	—		
Net cash used in financing activities	(168.6		)	(76.2		)
Net increase in cash and cash equivalents	266.7			189.6		
Cash and cash equivalents at beginning of period	1,083.8			1,043.6		
Cash and cash equivalents at end of period	$	1,350.5		$	1,233.2	
Supplemental cash flow disclosures:						
Income taxes paid	$	2.5		$	8.9	

See accompanying Notes to Consolidated Financial Statements.

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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 empowering the wireless
networking revolution. The Company's highly innovative analog semiconductors are connecting people, places, and things,
spanning a number of new and previously unimagined applications within the automotive, broadband, cellular infrastructure,
connected home, industrial, medical, military, smartphone, tablet and wearable markets.

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 results of operations, financial position, and cash flows of the Company for the periods presented. The results of operations, financial position, and cash flows for the Company during the interim periods are not necessarily indicative of those 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, 2016, filed with the SEC on November 22, 2016, as amended by Amendment No. 1 to such Annual Report on Form 10-K, filed with the SEC on January 30, 2017 (the "2016 10-K").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, expenses, comprehensive income and accumulated other comprehensive loss that are reported in these unaudited consolidated financial statements and accompanying disclosures. The Company evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment. Significant judgment is required in determining the reserves for and fair value of items such as inventory, income taxes, share-based compensation, loss contingencies, subsequent events (which the Company has evaluated through the date of issuance of these unaudited consolidated financial statements), bad debt allowances, 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. Actual results could differ significantly from these estimates.

The Company's fiscal year ends on the Friday closest to September 30. Fiscal year 2017 consists of 52 weeks and ends on September 29, 2017. Fiscal year 2016 consisted of 52 weeks and ended on September 30, 2016. The first quarters of fiscal year 2017 and fiscal year 2016 each consisted of 13 weeks and ended on December 30, 2016, and January 1, 2016, respectively.

2. FAIR VALUE

The Company groups its financial assets and liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- 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 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 its financial instruments and derivatives. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three months ended December 30, 2016.

During the three months ended December 30, 2016, the auction rate security that the Company carried as a Level 3 asset was redeemed at its par value. Upon receipt of the par value, the Company reversed the difference between the carrying value and par

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value of this security that it had previously temporarily impaired from accumulated other comprehensive income. There was no gain or loss recognized in earnings as a result of this transaction.

Contingent consideration related to business combinations is recorded as a Level 3 liability because management uses significant judgments and unobservable inputs to determine the fair value. The Company reassesses the fair value of its contingent consideration liabilities on a quarterly basis and records any fair value adjustments to earnings in the period that they are determined. The increases in Level 3 liabilities during the three months ended December 30, 2016, relate to the fair value of the contingent consideration associated with a business combination completed during the period, as detailed in Note 10 to Item 1 of this quarterly report on Form 10-Q. The fair value of the contingent consideration was determined using a weighted average probability of the expected revenue to be generated from the business over a three-year period, with the contingent payments being made in each of the respective years. The decreases to the Level 3 liabilities in the changes to the fair value of Level 3 liabilities below during the three months ended December 30, 2016, relate to payments of contingent consideration liabilities for acquisitions made in prior periods.

Assets and liabilities recorded at fair value on a recurring basis consisted of the following (in millions):

	As of December 30, 2016				As of September 30, 2016			
		Fair Value Measurements				Fair Value Measurements		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets								
Money market funds	$574.0	$574.0	$ —	$—	$408.7	$408.7	$ —	$—
Auction rate security	—	—	—	—	2.3	—	—	2.3
Total	$574.0	$574.0	$ —	$—	$411.0	$408.7	$ —	$2.3
Liabilities								
Contingent consideration liability recorded for business combinations	$16.9	$—	$ —	$16.9	$7.9	$—	$ —	$7.9
Total	$16.9	$—	$ —	$16.9	$7.9	$—	$ —	$7.9

The following table summarizes changes to the fair value of the Level 3 assets (in millions):

	Auction rate security
Balance as of September 30, 2016	$ 2.3
Decreases in Level 3 assets	(2.3)
Balance as of December 30, 2016	$ —

The following table summarizes changes to the fair value of the Level 3 liabilities (in millions):

	Contingent consideration
Balance as of September 30, 2016	$ 7.9
Increases to Level 3 liabilities	10.7
Decreases to Level 3 liabilities	(1.7)
Balance as of December 30, 2016	$ 16.9

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 are subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three months ended December 30, 2016.

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3. INVENTORY

Inventory consists of the following (in millions):

	As of December 30, 2016	September 30, 2016
Raw materials	$19.8	$ 18.5
Work-in-process	257.8	255.5
Finished goods	135.5	140.4
Finished goods held on consignment by customers	9.7	9.6
Total inventory	$422.8	$ 424.0

4. PROPERTY, PLANT AND EQUIPMENT

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

	As of December 30, 2016	September 30, 2016
Land and improvements	$11.6	$ 11.6
Buildings and improvements	135.4	133.5
Furniture and fixtures	29.8	29.5
Machinery and equipment	1,548.4	1,533.3
Construction in progress	94.5	59.9
Total property, plant and equipment, gross	1,819.7	1,767.8
Accumulated depreciation	(1,018.2)	(961.5)
Total property, plant and equipment, net	$801.5	$ 806.3

5. GOODWILL AND INTANGIBLE ASSETS

The changes to the carrying amount of goodwill during the three months ended December 30, 2016, are related to the business combination that closed during the period. For further information regarding this business combination see Note 10 to Item 1 of this quarterly report on Form 10-Q.

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 three months ended December 30, 2016.

Intangible assets consist of the following (in millions):

		As of December 30, 2016			As of September 30, 2016		
	Weighted Average Amortization Period Remaining (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	4.1	$78.5	$ (59.8)	$ 18.7	$78.5	$ (57.7)	$ 20.8
Developed technology and other	5.7	150.2	(95.6)	54.6	133.8	(89.2)	44.6

Trademarks	Indefinite	1.6	—	1.6	1.6	—	1.6
Total intangible assets		$230.3	$ (155.4)	$ 74.9	$213.9	$ (146.9)	$ 67.0

The increases in gross and net amounts of intangible assets are related to the business combination that closed during the period. For further information regarding this business combination see Note 10 to Item 1 of this quarterly report on Form 10-Q.

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

	Remaining 2017	2018	2019	2020	2021	Thereafter
Amortization expense	$ 18.4	$14.3	$12.6	$10.7	$8.5	$ 8.8

6. INCOME TAXES

The provision for income taxes consists of the following components (in millions):

	Three Months Ended	
	December 30, 2016	January 1, 2016
United States income taxes	$56.5	$ 53.8
Foreign income taxes	6.8	9.1
Provision for income taxes	$63.3	$ 62.9
Effective tax rate	19.7 %	15.0 %

The difference between the Company's effective tax rate and the 35% United States federal statutory rate for the three months ended December 30, 2016, resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and benefits from the settlement of a Canadian audit of the fiscal years 2010 and 2011 income tax returns, partially offset by an increase in the Company's tax expense related to a change in the Company's reserve for uncertain tax positions. Accrued taxes of $32.2 million and $26.5 million have been included in the other current liabilities line of the consolidated balance sheets as of December 30, 2016, and January 1, 2016, respectively.

During the three months ended December 30, 2016, the Company concluded a Canadian examination of its federal income tax returns for fiscal years 2010 and 2011. As a result, the Company decreased the reserve for uncertain tax positions which resulted in the recognition of an income tax benefit of $1.2 million in fiscal year 2017.

The difference between the Company's effective tax rate and the 35% United States federal statutory rate for the three months ended January 1, 2016, resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and benefits from the settlement of the Internal Revenue Service ("IRS") audit of the fiscal years 2012 and 2013 income tax returns, partially offset by an increase in the Company's tax expense related to a change in the Company's reserve for uncertain tax positions.

During the three months ended January 1, 2016, the Company concluded an IRS examination of its federal income tax returns for fiscal years 2012 and 2013. The Company agreed to various adjustments to its fiscal year 2012 and 2013 tax returns that resulted in the recognition of tax expense of $2.6 million during the three months ended January 1, 2016. With the conclusion of the audit, the Company decreased the reserve for uncertain tax positions which resulted in the recognition of an income tax benefit of $24.0 million in fiscal year 2016.

In December 2015, the United States Congress enacted the Protecting Americans from Tax Hikes Act of 2015, extending numerous tax provisions that had expired. This legislation included a permanent extension of the federal research and experimentation tax credit. As a result of the enactment of this legislation, $10.2 million of federal research and experimentation tax credits that were earned in fiscal year 2015 reduced the Company's tax expense and tax rate during the three months ended January 1, 2016.

7. 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 hazards, product liability and warranty, safety and health, employment and contractual matters.

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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.

The Company monitors the status of legal proceedings and other contingencies on an ongoing basis to ensure amounts are recognized and/or disclosed in its financial statements and footnotes. At the time of this filing, the Company recorded $16.0 million accrual for estimated loss contingencies, which is recorded in other current liabilities as of December 30, 2016. The Company does not believe that the possible range of loss is significantly different than the amount currently accrued. The Company also does not believe there are any additional pending legal proceedings that are reasonably possible to result in a material loss. The Company is engaged in various legal actions in the normal course of business and, while there can be no assurances, the Company believes the outcome of all pending litigation involving the Company will not have, individually or in the aggregate, a material adverse effect on its business.

Guarantees and Indemnifications

The Company has made no significant 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 facility or 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 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.

8. STOCKHOLDERS' EQUITY

Share Repurchase Program
On July 19, 2016, the Board of Directors approved a share repurchase program, pursuant to which the Company is authorized to repurchase up to $400.0 million of its common stock from time to time on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. During the three months ended December 30, 2016, the Company paid $106.5 million (including commissions) in connection with the repurchase of 1.4 million shares of its common stock (paying an average price of $76.05 per share). As of December 30, 2016, $94.9 million remained available under the existing share repurchase authorization.

On January 17, 2017, the Board of Directors approved a new share repurchase program, pursuant to which the Company is authorized to repurchase up to $500.0 million of its common stock from time to time prior to January 17, 2019, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. This newly authorized share repurchase plan replaces in its entirety the aforementioned July 19, 2016, plan.

Dividends

On January 19, 2017, the Company announced that the Board of Directors had declared a cash dividend on its common stock of $0.28 per share, payable on February 23, 2017, to the Company's stockholders of record as of the close of business on February 2, 2017. During the three months ended December 30, 2016, the Company declared and paid a $0.28 dividend per common share with a total charge to retained earnings of $51.8 million.

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Share-based Compensation

The following table summarizes the share-based compensation expense by line item in the Statement of Operations (in millions):

	Three Months Ended	
	December 30, 2016	January 1, 2016
Cost of sales	$3.8	$ 4.0
Research and development	8.3	9.6
Selling, general and administrative	9.5	9.7
Total share-based compensation	$21.6	$ 23.3

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share amounts):

	Three Months Ended	
	December 30, 2016	January 1, 2016
Net income	$257.8	$ 355.3
Weighted average shares outstanding – basic	184.8	190.4
Dilutive effect of equity based awards	2.5	4.3
Weighted average shares outstanding – diluted	187.3	194.7
Net income per share – basic	$1.39	$ 1.87
Net income per share – diluted	$1.38	$ 1.82
Anti-dilutive common stock equivalents	1.4	0.7

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of the Company’s common stock outstanding during the period. The calculation of diluted earnings per share includes the dilutive effect of equity based awards that were outstanding during the three months ended December 30, 2016, and January 1, 2016, using the treasury stock method. Certain of the Company’s outstanding share-based awards, noted in the table above, were excluded because they were anti-dilutive, but they could become dilutive in the future.

10. BUSINESS COMBINATION

During the three months ended December 30, 2016, the Company acquired a business for total net cash consideration of $13.7 million together with future contingent payments for a total aggregated fair value of $24.8 million, net of cash acquired. The future contingent consideration payments range from zero to $20.0 million and are based upon the achievement of specified revenue objectives that are payable up to three years from the anniversary of the acquisition, which at closing and at December 30, 2016, had an estimated fair value of $10.7 million. In allocating the total purchase consideration for this acquisition based on preliminary estimated fair values, the Company recorded $16.4 million of identifiable intangible assets and recognized $7.2 million of goodwill based on the preliminary fair value of the acquired net assets. Intangible assets acquired primarily consisted of developed technology with a weighted average useful life of 5.0 years. Goodwill resulting from this acquisition is not expected to be tax deductible.

The fair value estimates for the assets acquired and liabilities assumed for the acquisition completed during the three months ended December 30, 2016, were based upon preliminary calculations and valuations, and the Company's estimates and assumptions for this acquisition are subject to change as it obtains additional information during the measurement period (up to one year from the acquisition date).

Net revenue and net income from this acquisition has been included in the Consolidated Statements of Operations from the acquisition date through the end of the three months ended December 30, 2016, and the impact of the acquisition to the ongoing

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operations on the Company's net revenue and net income was not significant. The Company incurred immaterial transaction-related costs during the period ended December 30, 2016, which were included within selling, general and administrative expense.

11. RESTRUCTURING AND OTHER CHARGES

During the three months ended December 30, 2016, the Company implemented immaterial restructuring plans primarily related to redundancies associated with the acquisition made during the period and recorded $0.6 million related to employee severance. The Company anticipates making substantially all of the cash payments during the fiscal year, and does not expect any further contingencies related to the restructuring plan. Charges associated with the restructuring plan are categorized in the "Other restructuring programs" in the table below.

The following tables present a summary of the Company's restructuring activity (in millions):

Three months ended December 30, 2016	Balance at September 30, 2016	Current Charges	Cash Payments	Other	Balance at December 30, 2016
FY16 restructuring programs					
Employee severance costs	$ 2.4	$ —	$ (1.6)	$ —	$ 0.8
Other restructuring programs					
Employee severance costs, lease and other contractual obligations	—	0.6	—	—	0.6
Total	$ 2.4	$ 0.6	$ (1.6)	$ —	$ 1.4

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

This report and other documents we have filed with the 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 "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "seek "would," 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 of 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 Quarterly Report on Form 10-Q and the 2016 10-K, 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 Quarterly Report on Form 10-Q. 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 MONTHS ENDED DECEMBER 30, 2016, AND JANUARY 1, 2016

The following table sets forth the results of our operations expressed as a percentage of net revenue:

	Three Months Ended	
	December 30, 2016	January 1, 2016
Net revenue	100.0 %	100.0 %
Cost of goods sold	49.3	49.1
Gross profit	50.7	50.9
Operating expenses:		
Research and development	9.0	8.8
Selling, general and administrative	5.6	5.6
Amortization of intangibles	0.9	0.9
Restructuring and other charges	0.1	—
Total operating expenses	15.6	15.3
Operating income	35.1	35.6
Other expense, net	(0.1)	(0.1)
Merger termination fee	—	9.5
Income before income taxes	35.0	45.0
Provision for income taxes	6.9	6.7
Net income	28.1 %	38.3 %

OVERVIEW

We, together with our consolidated subsidiaries, are empowering the wireless networking revolution. Our highly innovative analog semiconductors are connecting people, places, and things spanning a number of new and previously unimagined applications within the automotive, broadband, cellular infrastructure, connected home, industrial, medical, military, smartphone, tablet and wearable markets.

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GENERAL

During the three months ended December 30, 2016, the following key factors contributed to our overall results of operations, financial position and cash flows:

- Net revenue decreased by 1% to $914 million for the three months ended December 30, 2016, as compared with the corresponding period in the prior fiscal year due to a decrease in demand for our components from a key smartphone customer. This decrease was partially offset by increases in our ability to capture a higher share of the increasing RF and analog content per device as smartphones continue to displace traditional cellular phones, increased strength in emerging markets due to the adoption of 3G and 4G technologies, the increasing number of applications for the Internet of Things, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

- Our ending cash and cash equivalents balance increased approximately 25% to $1,351 million as of December 30, 2016, from $1,084 million as of September 30, 2016. This increase in cash and cash equivalents was primarily the result of cash generated from operations of $496 million, partially offset by the repurchase of 1.4 million shares of common stock for $107 million, dividend payments of $52 million, and capital expenditures of $50 million during the three months ended December 30, 2016.

NET REVENUE

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Net revenue	$914.3	(1.3)%	$ 926.8

We market and sell our products directly to original equipment manufacturers of communications and electronics products, third-party original design manufacturers and contract manufacturers, and indirectly through electronic components distributors. We generally experience seasonal peaks during the second half of the calendar year primarily as a result of increased worldwide production of consumer electronics in anticipation of increased holiday sales, whereas our second fiscal quarter is typically lower and in line with seasonal industry trends.

We generated net revenue of $914.3 million for the three months ended December 30, 2016, a decrease of $12.5 million or 1.3%, as compared with $926.8 million for the corresponding period in fiscal year 2016. This decrease in net revenue for the three months ended December 30, 2016, is primarily related to a decrease in demand for our components from a key smartphone customer as compared with the corresponding period in fiscal year 2016, partially offset by increases in our ability to capture a higher share of the increasing RF and analog content per device as smartphones continue to displace traditional cellular phones, increased strength in emerging markets due to the adoption of 3G and 4G technologies, the increasing popularity of tablet computing and wearables, the increasing number of applications for the Internet of Things, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

GROSS PROFIT

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Gross profit	$463.9	(1.7)%	$472.1
% of net revenue	50.7 %		50.9 %

Gross profit represents net revenue less cost of goods sold. Our 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 five to ten percent 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, improve manufacturing efficiencies, lower manufacturing costs of existing products and by introducing new and higher value-added products.

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The $8.2 million decrease in gross profit for the three months ended December 30, 2016, as compared with the corresponding period in fiscal year 2016, was primarily the result of lower unit volumes and erosion of average selling price that combined to negatively impact gross profit by $34.6 million. These negative impacts were partially offset by lower per-unit materials and manufacturing costs with a gross profit benefit of $26.4 million. Gross profit margin decreased to 50.7% of net revenue for the three months ended December 30, 2016, due to overall decline in revenue and the aforementioned factors.

RESEARCH AND DEVELOPMENT

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Research and development	$82.0	0.6%	$ 81.5
% of net revenue	9.0 %		8.8 %

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 increase in research and development expenses for the three months ended December 30, 2016, as compared with the corresponding period in fiscal year 2016, was primarily related to increased employee compensation and product development– related expenses. As a result of the increased expense and aforementioned decline in revenue, research and development expenses increased as a percentage of net revenue.

SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Selling, general and administrative	$50.9	(1.5)%	$ 51.7
% of net revenue	5.6 %		5.6 %

Selling, general and administrative expenses include legal and related costs, 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.

The decrease in selling, general and administrative expenses for the three months ended December 30, 2016, as compared with the corresponding period in fiscal year 2016, was primarily related to decreases in legal and other acquisition-related costs related to business combinations completed and contemplated during the period, partially offset by employee compensation expense. Selling, general and administrative expense remained constant as a percentage of net revenue when compared with the corresponding period in fiscal year 2016.

AMORTIZATION OF INTANGIBLES

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			

Amortization of intangibles	$8.5	1.2%	$ 8.4
% of net revenue	0.9 %		0.9 %

The increase in amortization expense for the three months ended December 30, 2016, as compared with the corresponding period in fiscal year 2016, was primarily due to the intangible assets that were acquired during the period partially offset by the end of the useful lives of certain fully amortized intangible assets that were acquired in prior fiscal years.

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RESTRUCTURING AND OTHER CHARGES

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Restructuring and other charges	$0.6	100.0%	$ —
% of net revenue	0.1 %		— %

Restructuring and other charges are related to restructuring plans to reduce redundancies primarily associated with the acquisition made during the three months ended December 30, 2016. We do not anticipate any further significant charges associated with these restructuring activities. Substantially all of the cash payments related to these restructuring plans are expected to occur during the current fiscal year.

MERGER TERMINATION FEE

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Merger termination fee	—	(100.0)%	88.5
% of net revenue	— %		9.5 %

On October 29, 2015, we entered into an Amended and Restated Agreement and Plan of Merger (the "Merger Agreement") with PMC-Sierra, Inc. ("PMC"), providing for, subject to the terms and conditions of the Merger Agreement, our cash acquisition of PMC. On November 23, 2015, PMC notified us that it had terminated the Merger Agreement. As a result, on November 24, 2015, PMC paid us a termination fee of $88.5 million pursuant to the Merger Agreement.

PROVISION FOR INCOME TAXES

	Three Months Ended		
	December 30, 2016	Change	January 1, 2016
(dollars in millions)			
Provision for income taxes	$63.3	0.6%	$ 62.9
% of net revenue	6.9 %		6.7 %

We recorded a provision for income taxes of $63.3 million (which consisted of $56.5 million and $6.8 million related to United States and foreign income taxes, respectively) for the three months ended December 30, 2016.

The effective tax rate for the three months ended December 30, 2016, was 19.7%, as compared with 15.0% for the three months ended January 1, 2016. The difference between our year-to-date effective tax rate of 19.7% and the federal statutory rate of 35% was principally due to the recognition of foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and benefits from the settlement of a Canadian audit of the fiscal years 2010 and 2011 income tax returns, partially offset by an increase in our tax expense related to our current year reserve for uncertain tax positions.

During the three months ended January 1, 2016, we concluded an IRS examination of our federal income tax returns for fiscal years 2012 and 2013. As a result, we agreed to various adjustments to the fiscal year 2012 and 2013 tax returns that resulted in the recognition of current year tax expense of $2.6 million during the three months ended January 1, 2016. With the conclusion of the audit, we decreased the reserve for uncertain tax positions which resulted in the recognition of an income tax benefit of $24.0 million in fiscal year 2016.

In December 2015, the United States Congress enacted the Protecting Americans from Tax Hikes Act of 2015, extending numerous tax provisions that had expired. This legislation included a permanent extension of the federal research and experimentation tax credit. As a result of the enactment of this legislation, $10.2 million of federal research and experimentation tax credits that were earned in fiscal year 2015 reduced our tax expense and tax rate during the three months ended January 1, 2016.

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LIQUIDITY AND CAPITAL RESOURCES

(in millions)	Three Months Ended December 30, 2016	January 1, 2016
Cash and cash equivalents at beginning of period	$1,083.8	$1,043.6
Net cash provided by operating activities	495.9	345.3
Net cash used in investing activities	(60.6)	(79.5)
Net cash used in financing activities	(168.6)	(76.2)
Cash and cash equivalents at end of period	$1,350.5	$1,233.2

Cash flow provided by operating activities:
Cash flow provided by 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 three months ended December 30, 2016, we generated $495.9 million of cash flow from operating activities, an increase of $150.6 million as compared with the $345.3 million generated during the three months ended January 1, 2016. The increase in cash flow from operating activities during the three months ended December 30, 2016, was primarily related to net cash inflows from changes in operating assets and liabilities partially offset by lower net income related in part to the $88.5 million PMC merger termination fee received in the prior year. Specifically, the changes in operating assets and liabilities that resulted in sources of cash were: $59.9 million increase in other current and long-term liabilities related to the timing of tax payments, $50.9 million increase in accounts payable related to the timing of vendor payments, and a decrease of $49.3 million in accounts receivable primarily related to cash collections.

Cash flow used in investing activities:
Cash flow used in investing activities consists primarily of cash paid for acquisitions net of cash acquired, capital expenditures, cash received from the sale of capital assets, and cash related to the sale or maturity of investments. Cash flow used in investing activities was $60.6 million during the three months ended December 30, 2016, as compared with $79.5 million