

SKYWORKS SOLUTIONS INC  
Form 10-Q  
February 07, 2005

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

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

For the quarterly period ended December 31, 2004

Commission file number 1-5560

**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. ☒ Yes ☐ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). ☒ Yes ☐ 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 at January 28, 2005 Common Stock, par value \$.25 per share 156,889,331

QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED DECEMBER 31, 2004

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## (Unaudited, in thousands, except per share amounts)

ASSETS											
December 31, 2004											
September 30, 2004											
<hr/>											
<b>Current assets:</b>											
Cash and cash equivalents	\$	202,203	\$	203,539	Short-term investments	7,479	5,000	Restricted cash	6,013	6,013	
Receivables, net of allowance for doubtful accounts of			\$2,551 and \$1,987, respectively		170,860	157,772	Inventories	79,274	79,572		
Other current assets		10,875		11,968							
<hr/>											
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Total current assets		476,704		463,864	Property, plant and equipment, less accumulated depreciation and amortization of					\$270,635	
and \$261,260, respectively		144,131		143,534	Property held for sale	6,485	6,475	Goodwill	500,313	504,493	Intangible assets, less
accumulated amortization of \$7,293 and \$6,746, respectively		19,348		19,895	Deferred tax assets	17,420	19,372	Other assets	10,950	11,173	
<hr/>											
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Total assets	\$	1,175,351	\$	1,168,806							

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**LIABILITIES AND STOCKHOLDERS' EQUITY** **Current liabilities:** Short-term debt \$ 50,000 \$ 50,000 Accounts payable 74,510 73,405 Accrued compensation and benefits 27,340 36,630 Other current liabilities 16,175 21,216

Total current liabilities 168,025 181,251 Long-term debt 230,000 230,000 Other long-term liabilities 6,461 5,932

Total liabilities 404,486 417,183 **Stockholders' equity:** Preferred stock, no par value: 25,000 authorized, no shares issued -- -- Common stock, \$0.25 par value: 525,000 shares authorized; 156,806 and 156,012 shares issued and outstanding, respectively 39,201 39,003 Additional paid-in capital 1,317,730 1,312,603 Accumulated deficit (585,280 ) (599,197 ) Accumulated comprehensive loss (786 ) (786 )

Total stockholders' equity 770,865 751,623

Total liabilities and stockholders' equity \$ 1,175,351 \$ 1,168,806

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share amounts)

**Three Months Ended  
December 31,2004**

**2003**

Net revenues \$ 220,160 \$ 175,108 Cost of goods sold 132,141 105,540

Gross profit 88,019 69,568 Operating expenses: Research and development 37,113 38,065 Selling, general and administrative 27,224 20,361 Amortization 737 769

Total operating expenses 65,074 59,195

Operating income 22,945 10,373 Other income (expense): Interest expense (3,533 ) (5,374 ) Other income, net 1,121 453

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Total other income (expense), net (2,412 ) (4,921 )

Income before income taxes 20,533 5,452 Provision for income taxes 6,616 1,280

Net income \$ 13,917 \$ 4,172

Per share information: Net income, basic and diluted \$ 0.09 \$ 0.03

Weighted average number of common shares outstanding: Basic 156,440 148,784

Diluted 158,905 150,997

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

Three Months Ended  
December 31, 2004

2003

**Cash flows from operating activities:** Net income \$ 13,917 \$ 4,172 Adjustments to reconcile net income to net cash provided by (used in) operating activities: Depreciation 9,442 8,625 Tax adjustment to goodwill 4,179 -- Amortization 737 769 Amortization of deferred financing costs 399 553 Contribution of common shares to Savings and Retirement Plans 1,269 725 Loss on sale of assets -- 56 Deferred income taxes 1,952 -- Changes in assets and liabilities: Receivables, net (13,088 ) (6,575 ) Inventories, net 298 (3,676 ) Other assets 728 (199 ) Accounts payable 1,105 14,024 Other liabilities (13,811 ) 7,651

Net cash provided by (used in) operating activities 7,127 26,125

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**Cash flows from investing activities:** Capital expenditures (10,040 ) (13,850 ) Purchases of short-term investments (2,479 ) -- Maturities of short-term investments -- 3,988

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Net cash provided by (used in) investing activities (12,519 ) (9,862 )

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**Cash flows from financing activities:** Proceeds from (payments on) short-term borrowings -- (2,676 ) Exercise of stock options 4,056 1,158

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Net cash provided by (used in) financing activities 4,056 (1,518 )

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Net increase (decrease) in cash and cash equivalents (1,336 ) 14,745 Cash and cash equivalents at beginning of period 203,539 161,506

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Cash and cash equivalents at end of period \$ 202,203 \$ 176,251

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Supplemental cash flow disclosures: Taxes paid \$ 685 \$ 317

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Interest paid \$ 5,895 \$ 7,331

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The accompanying notes are an integral part of these consolidated financial statements.

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc. ( Skyworks or the Company ) is a leading wireless semiconductor company focused exclusively on radio frequency ( RF ) and complete cellular system solutions for mobile communications applications. We offer front-end modules, RF subsystems and cellular systems to leading wireless handset and infrastructure customers.

On June 25, 2002, pursuant to an Agreement and Plan of Reorganization dated as of December 16, 2001, as amended as of April 12, 2002, by and among Alpha Industries, Inc. ( Alpha ), Conexant Systems, Inc. ( Conexant ) and Washington Sub, Inc. ( Washington ), a wholly owned subsidiary of Conexant to which Conexant spun off its wireless communications business, including its gallium arsenide wafer fabrication facility located in Newbury Park, California, but excluding certain assets and liabilities, Washington merged with and into Alpha with Alpha as the surviving entity (the Merger ). Following the Merger, Alpha changed its corporate name to Skyworks Solutions, Inc.

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Immediately following completion of the Merger, the Company purchased Conexant's semiconductor assembly, module manufacturing and test facility located in Mexicali, Mexico, and certain related operations ( Mexicali Operations ) for \$150 million. For financial accounting purposes, the sale of the Mexicali Operations by Conexant to Skyworks Solutions was treated as if Conexant had contributed the Mexicali Operations to Washington as part of the spin-off, and the \$150 million purchase price was treated as a return of capital to Conexant. For purposes of these financial statements, the Washington business and the Mexicali Operations are collectively referred to as Washington/Mexicali.

The Merger was accounted for as a reverse acquisition whereby Washington was treated as the acquirer and Alpha as the acquiree, primarily because Conexant shareholders owned a majority, approximately 67 percent, of the Company upon completion of the Merger. Under a reverse acquisition, the purchase price of Alpha was based upon the fair market value of Alpha common stock for a reasonable period of time before and after the announcement date of the Merger and the fair value of Alpha stock options. The purchase price of Alpha was allocated to the assets acquired and liabilities assumed by Washington, as the acquiring company for accounting purposes, based upon their estimated fair market value at the acquisition date.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). 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, have been condensed or omitted pursuant to those rules and regulations. However, in the opinion of management, the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the financial position, results of operations, and cash flows of the Company. The results of operations for the three months ended December 31, 2004 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 Form 10-K for the fiscal year ended September 30, 2004 as filed with the SEC.

**Fiscal Periods** The Company's fiscal year ends on the Friday closest to September 30. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month. Fiscal year 2004 ended on October 1, 2004 and the first quarters of fiscal 2005 and fiscal 2004 actually ended on December 31, 2004 and January 2, 2004, respectively.

**Income Taxes** It was the Company's intention to permanently reinvest the undistributed earnings of its foreign subsidiaries in accordance with Accounting Principles Board ( APB ) Opinion No. 23. During the three months ended December 31, 2004 the Company reversed its policy of permanently reinvesting the earnings of its Mexican business.

**Reclassification** Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

### Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 151 Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company does not believe the impact of adopting SFAS No. 151 will have a material impact on its financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. For an illustration of the effect of using the fair-value-based method of accounting for share-based payment transactions on our recent results of operations, see Note 9.

### NOTE 2. INVENTORY

Inventories consist of the following (in thousands):

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December 31,  
2004

September 30,  
2004

Raw materials \$13,485 \$12,176 Work-in-process 46,681 50,717 Finished goods 19,108 16,679

\$79,274 \$79,572

**NOTE 3. GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets are principally the result of the Merger with Washington/Mexicali completed on June 25, 2002. The Company tests its goodwill for impairment annually as of the first day of its fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired.

Goodwill and intangible assets consist of the following (in thousands):

December 31, 2004

September 30, 2004

Weighted  
Average  
Amortization  
Period (Years)

Gross  
Carrying  
Amount

Accumulated  
Amortization

Net  
Carrying  
Amount

Gross  
Carrying  
Amount

Accumulated  
Amortization

Net  
Carrying  
Amount

Goodwill \$ 500,313 \$ -- \$ 500,313 \$ 504,493 \$ -- \$ 504,493

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Amortized intangible assets: Developed technology 10 10,550 (3,995 ) 6,555 10,550 (3,777 ) 6,773 Customer relationships 10 12,700 (3,185 ) 9,515 12,700 (2,868 ) 9,832 Other 3 122 (113 ) 9 122 (101 ) 21

23,372 (7,293) 16,079 23,372 (6,746) 16,626 Unamortized intangible assets: Tradenames 3,269 -- 3,269 3,269 -- 3,269

Total intangible assets \$26,641 \$ (7,293 ) \$ 19,348 \$26,641 \$ (6,746 ) \$19,895

Amortization expense related to intangible assets are as follows (in thousands):

Three Months Ended  
December 31,

2004

2003

Amortization expense \$547 \$580

Annual amortization expense related to intangible assets is expected to be as follows (in thousands):

2005

2006

2007

2008

2009



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Amortization expense \$2,161 \$2,144 \$2,144 \$2,144 \$2,144

The changes in the gross carrying amount of goodwill and intangible assets are as follows (in thousands):

## Intangible Assets

	Goodwill						
	Developed Technology						
	Customer Relationships						
	Trademarks						
	Other						
	Total						
Balance as of September 30, 2004	\$ 504,493	\$10,550	\$12,700	\$3,269	\$122	\$26,641	Additions (deductions) during year (4,180 ) --
--	--	--	--	--	--	--	--
Balance as of December 31, 2004	\$ 500,313	\$10,550	\$12,700	\$3,269	\$122	\$26,641	

The deduction to goodwill in the three months ended December 31, 2004 reflects the recognition of a portion of the deferred tax assets for which no benefit was previously recognized as of the date of the Merger. The future realization of certain pre-Merger deferred tax assets will be applied to reduce the carrying value of goodwill. The remaining portion of the valuation allowance for these pre-Merger deferred tax assets for which subsequently recognized tax benefits may be applied to reduce goodwill is approximately \$40.5 million at December 31, 2004.

## NOTE 4. BORROWING ARRANGEMENTS

### LONG-TERM DEBT

The Company's long-term debt consists of \$230 million of 4.75 percent convertible subordinated notes due November 2007. These notes can be converted into 110.4911 shares of common stock per \$1,000 principal balance, which is the equivalent of a conversion price of approximately \$9.05 per share. The total number of shares that could be issued under the notes is approximately 25.4 million shares. The Company may redeem the notes at any time after November 20, 2005. The redemption price of the notes during the period between November 20, 2005 through November 14, 2006 will be \$1,011.875 per \$1,000 principal amount of notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date, and the redemption price of the notes beginning on November 15, 2006 and thereafter will be \$1,000 per \$1,000 principal amount of notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. Holders may require the Company to

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repurchase the notes upon a change in control of the Company. The Company pays interest in cash semi-annually in arrears on May 15 and November 15 of each year.

### SHORT-TERM DEBT

On July 15, 2003, the Company entered into a receivables purchase agreement under which it has agreed to sell from time to time certain of its accounts receivable to Skyworks USA, Inc. ( Skyworks USA ), a wholly-owned special purpose entity that is fully consolidated for accounting purposes. Concurrently, Skyworks USA entered into an agreement with Wachovia Bank, National Association providing for a \$50.0 million credit facility ( Facility Agreement ) secured by the purchased accounts receivable. As a part of the consolidation, any interest incurred by Skyworks USA related to monies it borrows under the Facility Agreement is recorded as interest expense in the Company's results of operations. The Company performs collections and administrative functions on behalf of Skyworks USA. As of December 31, 2004, Skyworks USA had borrowings of \$50.0 million outstanding under this agreement.

### NOTE 5. RESTRUCTURING

#### *2004 Corporate Restructuring Plan*

During fiscal 2004, the Company consolidated cellular systems software design centers in an effort to improve the Company's overall time to market for next-generation multimedia systems development. These actions aligned the Company's structure with its current business environment. The Company implemented reductions in force at three remote facilities and recorded restructuring charges of approximately \$4.2 million for costs related to severance benefits for affected employees and lease obligations. Substantially all amounts accrued for these actions have been paid and the remaining amounts are expected to be paid during fiscal 2005.

	Workforce Reductions					Facility Closings					Total			
Charged to costs and expenses	\$	3,685	\$	498	\$	4,183	Cash payments	(3,530)	(287)	(3,817)				
Restructuring balance, September 30, 2004		155		211		366	Cash payments	(88)	(64)	(152)				
Restructuring balance, December 31, 2004	\$	67	\$	147	\$	214								

#### *2003 Corporate Restructuring Plans*

During fiscal 2003, the Company recorded \$6.2 million in restructuring charges to provide for workforce reductions and the consolidation of facilities. The charge was based upon estimates of the cost of severance benefits for affected employees and lease cancellation, facility sales, and other costs related to the consolidation of facilities. As of December 31, 2004, substantially all amounts accrued for these actions have been paid and the remaining amounts are expected to be paid within one year.

Activity and liability balances related to the fiscal 2003 restructuring actions are as follows (in thousands):

#### Workforce

### NOTE 5. RESTRUCTURING

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## Reductions

Facility Closings and Other									
Total									
Charged to costs and expenses \$ 4,819 \$ 1,405 \$ 6,224 Cash payments (3,510 ) (1,236 ) (4,746 )									
Restructuring balance, September 30, 2003 1,309 169 1,478 Charged to costs and expenses 475 -- 475 Cash payments (1,777 ) (116 ) (1,893 )									
Restructuring balance, September 30, 2004 7 53 60 Cash payments (5 ) (20 ) (25 )									
Restructuring balance, December 31, 2004 \$ 2 \$ 33 \$ 35									

## Pre-Merger Alpha Restructuring Plan

In addition, the Company assumed approximately \$7.8 million of restructuring reserves from Alpha in connection with the Merger. During the first quarter of fiscal 2005, and the fiscal years ended September 30, 2004, 2003 and 2002, payments related to the restructuring reserves assumed from Alpha were \$0.2 million, \$0.2 million, \$4.7 million and \$1.1 million, respectively. In addition, the Company reduced this restructuring reserve by approximately \$0.5 million in fiscal 2004 primarily related to a reduction in facility closure costs. As of December 31, 2004, the restructuring reserve balance related to Alpha was \$1.3 million and primarily relates to estimated future payments on a lease that expires in 2008.

## NOTE 6. PENSIONS AND OTHER RETIREE BENEFITS

In connection with Conexant's spin-off of its Washington/Mexicali business, Conexant transferred obligations to Washington/Mexicali for its pension plan and retiree benefits. The amounts that were transferred relate to approximately twenty Washington/Mexicali employees that had enrolled in Conexant's Voluntary Early Retirement Plan ( VERP ) in 1998. The VERP also provides health care benefits to members of the plan. The Company currently does not offer pension plans or retiree benefits to its employees.

The components of defined benefit expense are as follows (in thousands):

## Three Months Ended December 31, 2004

Three Months Ended December 31, 2003	
Pension Benefits	

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**Retiree  
Medical  
Benefits**

**Pension  
Benefits**

**Retiree  
Medical  
Benefits**

Service cost-benefits earned \$ -- \$ -- \$ -- \$ -- Interest cost on benefit obligation 47 44 44 18 Estimated return on assets (27 ) (15 )  
(15 ) -- Net amortization 8 1 1 13

Net periodic benefit cost \$ 28 \$ 30 \$ 30 \$ 31

The Company contributed \$0.1 million to the pension benefit plan during the three months ended December 31, 2004. The Company expects to contribute approximately \$0.1 million to the benefit pension plan in each of the remaining quarters of fiscal 2005.

**NOTE 7. SEGMENT INFORMATION**

The Company follows Statement of Financial Accounting Standards ( SFAS ) No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and in interim reports to shareholders. The method for determining what information to report is based on the way that management organizes the segments within the Company for making operating decisions and assessing financial performance. In evaluating financial performance, management uses sales and operating profit as the measure of the segments' profit or loss. Based on the guidance in SFAS No. 131, the Company has one operating segment for financial reporting purposes which is the design, development, manufacture and marketing of proprietary semiconductor products and system solutions for manufacturers of wireless communication products.

**NOTE 8. EARNINGS PER SHARE**

(In thousands, except per share amounts)

**Three Months Ended  
December 31,**

**2004**

**2003**

Net income \$ 13,917 \$ 4,172

Weighted average shares outstanding - basic 156,440 148,784 Effect of dilutive stock options 2,465 2,213

**NOTE 8. EARNINGS PER SHARE**

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Weighted average shares outstanding - diluted 158,905 150,997

Net income per share - basic \$ 0.09 \$ 0.03 Effect of dilutive stock options -- --

Net income per share - diluted \$ 0.09 \$ 0.03

Debt securities convertible into approximately 25.4 million shares, stock options exercisable into approximately 15.6 million shares and a warrant to purchase approximately 1.0 million shares were outstanding but not included in the computation of earnings per share for the three months ended December 31, 2004 as their effect would have been anti-dilutive. Debt securities convertible into approximately 25.4 million shares, stock options exercisable into approximately 17.1 million shares and a warrant to purchase approximately 1.0 million shares were outstanding but not included in the computation of earnings per share for the three months ended December 31, 2003 as their effect would have been anti-dilutive.

## NOTE 9. STOCK-BASED COMPENSATION PLANS

The Company applies the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for its stock-based compensation plans. Therefore, compensation cost is not generally required to be recognized in the financial statements for the Company's stock options issued to employees. No stock-based employee compensation cost is reflected in net income, as all options granted under the Company's stock-based employee compensation plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

As previously discussed, the Company will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements.

The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based compensation.

(in thousands, except per share amounts):

Three Months Ended  
December 31,

2004

2003

Reported net income \$ 13,917 \$ 4,172 Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (6,300 ) (1,292 )

Adjusted net income \$ 7,617 \$ 2,880

Per share information, basic and diluted: Reported net income \$ 0.09 \$ 0.03 Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (0.04 ) (0.01 )

(in thousands, except per share amounts):

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Adjusted net income \$ 0.05 \$ 0.02

For purposes of pro forma disclosures under SFAS No. 123, the estimated fair value of the options is assumed to be amortized to expense over the options vesting period. The fair value of the options granted has been estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions:

2005

2004

Expected volatility 75 % 91 % Risk free interest rate 3 .6% 1 .9% Dividend yield -- -- Expected option life (years) 4 .0 5 .0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require input of highly subjective assumptions, including the expected stock price volatility. Because options held by employees and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reasonable measure of the fair value of these options.

### NOTE 10. PURCHASE COMMITMENTS

Under supply agreements entered into with Conexant and subsequently with Jazz Semiconductor, Inc. ( Jazz Semiconductor ), the Company receives wafer fabrication, wafer probe and certain other services from Jazz Semiconductor s Newport Beach, California foundry.

Pursuant to the terms of these agreements, the Company is committed to obtaining certain minimum wafer volumes from Jazz Semiconductor through March 2005. The Company s remaining minimum purchase obligations under these supply agreements are approximately \$6.4 million through March 2005, at which time the Company will no longer have minimum purchase obligations although it expects to continue to utilize Jazz Semiconductor as a supplier in its ordinary course of business. The Company currently anticipates meeting its minimum purchase obligations under these supply agreements.

### NOTE 11. CONTINGENCIES

From time to time various lawsuits, claims and proceedings have been, and may in the future be, instituted or asserted against Skyworks, including those pertaining to patent infringement, intellectual property, environmental, product liability, safety and health, employment and contractual matters. In addition, in connection with the Merger, Skyworks has assumed responsibility for all then current and future litigation (including environmental and intellectual property proceedings) against Conexant or its subsidiaries in respect of the operations of Conexant s wireless business. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to Skyworks. Intellectual property disputes often have a risk of injunctive relief which, if imposed against Skyworks, could materially and adversely affect the financial condition or results of operations of Skyworks.

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 our business and have demanded and may in the future demand that we license their technology. At the present time, the Company is in litigation with Qualcomm Incorporated ( Qualcomm ) regarding claims that both the Company and Qualcomm filed and first served against each other on December 4, 2003 asserting violations of certain of each company s respective intellectual property rights. The Company believes Qualcomm s claims are without merit and is vigorously defending against Qualcomm s claims and fully prosecuting its claims against them.

### NOTE 12. GUARANTEES AND INDEMNITIES

The Company does not currently have any guarantees. The Company generally indemnifies its customers from third-party intellectual property infringement litigation claims related to its products. 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.

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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 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, and are subject to the safe harbor created by those sections. Words such as believes, expects, may, will, would, should, could, 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 elsewhere in this report and in the other documents 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 not any other person or entity.*

### OVERVIEW

Skyworks Solutions, Inc. ( Skyworks or the Company ) is a leading wireless semiconductor company focused exclusively on radio frequency ( RF ) and complete cellular system solutions for mobile communications applications. We offer front-end modules, RF subsystems and cellular systems to leading wireless handset and infrastructure customers.

The wireless communications semiconductor industry is highly cyclical and is characterized by rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. Our operating results have been, and our operating results may continue to be, negatively affected by substantial quarterly and annual fluctuations and market downturns due to a number of factors, such as changes in demand for end-user equipment, the timing of the receipt, reduction or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products and our customers' products, our ability to develop, introduce and market new products and technologies on a timely basis, availability and cost of products from suppliers, new product and technology introductions by competitors, changes in the mix of products produced and sold, intellectual property disputes, the timing and extent of product development costs and general economic conditions. In the past, average selling prices of established products have generally declined over time and this trend is expected to continue in the future.

### OUR STRATEGY

Skyworks' vision is to become the premier supplier of wireless semiconductor solutions. Key elements in our strategy include:

#### Leveraging Core Technologies

Skyworks deploys technology building blocks such as radio frequency integrated circuits, analog/mixed-signal processing cores and digital baseband engines as well as software across multiple product platforms. We believe that this approach creates economies of scale in research and development and facilitates a reduction in the time to market for key products.

#### Increasing Integration Levels

High levels of integration enhance the benefits of our products by reducing production costs through the use of fewer external components, reduced board space and improved system assembly yields. By combining all of the necessary communications functions for a complete system solution, Skyworks can deliver additional semiconductor content, thereby offering existing and potential customers more compelling and

cost-effective solutions.

### Capturing an Increasing Amount of Semiconductor Content

We enable our customers to start with individual components as necessary, and then migrate up the product integration ladder. We believe that our highly integrated solutions will enable these customers to speed their time to market while focusing their resources on product differentiation through a broader range of more sophisticated, next-generation features.

### Diversifying Customer Base

Skyworks supports virtually every wireless handset original equipment manufacturer ( OEM ) including Nokia Corporation, Motorola, Inc., Samsung Electronics Co., Sony/Ericsson and LG Electronics, Inc. Additionally, we supply original design manufacturers ( ODMs ) such as Arima, BenQ, Chi Mei, Compal and Quanta as well as emerging domestic handset suppliers throughout China. With the industry's move to outsourcing to enable increased OEM focus on brand and channel development, we believe we are particularly well-positioned to address the growing needs of new market entrants and established suppliers alike who seek RF and system-level integration expertise.

### Delivering Operational Excellence

The Skyworks operations team leverages world-class manufacturing technologies and enables highly integrated modules as well as system-level solutions. Skyworks will vertically integrate where it can differentiate or will otherwise enter alliances and partnerships for leading-edge capabilities. These partnerships and alliances are designed to ensure product leadership and competitive advantage in the marketplace. We are focused on achieving the industry's shortest cycle times, highest yields and ultimately the lowest cost structure.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003

The following table sets forth the results of our operations expressed as a percentage of net revenues for the three months ended December 31, 2004 and 2003:

#### Three Months Ended December 31,

	2004	2003
Net revenues	100.0%	100.0%
Cost of goods sold	60.0	60.3
Gross margin	40.0	39.7
Operating expenses:		
Research and development	16.9	21.7
Selling, general and administrative	12.4	11.6
Amortization	0.3	0.4
Total operating expenses	29.6	33.8
Operating income	10.4	5.9
Interest expense	(1.6)	(3.1)
Other income, net	0.5	0.3

THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003



Income before income taxes 9 .3 3 .1 Provision for income taxes 3 .0 0 .7

Net income 6 .3% 2 .4%

## GENERAL

During the three months ended December 31, 2004, we made progress in several key areas that contributed to an improvement in operating results and the generation of positive cash flows from operations. More specifically, we:

experienced an increase in demand for our products and launched and ramped new highly integrated products; experienced a 19% increase in units sold in addition to a 6% aggregate increase in the average selling price of our products; and reduced total operating expenses as a percentage of net revenues to 29.6% for the three months ended December 31, 2004 from 33.8% for the corresponding period in previous fiscal year.

## NET REVENUES

### Three Months Ended December 31,

(in thousands)2004

Change

2003

Net revenues \$220,160 25 .7% \$175,108

We market and sell our semiconductor products and system solutions to leading OEMs of communication electronics products, third-party ODMs and contract manufacturers and indirectly through electronic components distributors.

Net revenues increased for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year primarily as the result of increased demand for our wireless product portfolio. During the three months ended December 31, 2004, we experienced a 19% increase in units sold in addition to a 6% aggregate increase in the average selling price of our products as we experienced a shift in our product mix to higher-integrated products tempered by decreases in the average selling price of our discrete products, when compared to the corresponding period in the previous fiscal year. More specifically, we launched and ramped new highly integrated products increasing our average selling prices primarily within our front-end module products while experiencing a significant increase in units sold within our cellular systems products. These increases in net revenues for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year were tempered by a decrease of approximately \$6.8 million in net revenues for our assembly and test services.

**GROSS PROFIT****Three Months Ended December 31,****(in thousands)2004****Change****2003**

Gross profit: \$ 88,019 26.5% \$ 69,568 % of net revenues 40.0% 39.7%

Gross profit represents net revenues less cost of goods sold. Cost of goods sold consists primarily of purchased materials, labor and overhead (including depreciation) associated with product manufacturing, royalty and other intellectual property costs and sustaining engineering expenses pertaining to products sold.

Gross profit improved for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year primarily as the result of increased operational efficiency through capacity utilization. This was partially offset by additional costs we incurred as we launched and ramped a number of more highly integrated product offerings.

**RESEARCH AND DEVELOPMENT****Three Months Ended December 31,****(in thousands)2004****Change****2003**

Research and development \$ 37,113 (2.5)% \$ 38,065 % of net revenues 16.9% 21.7%

Research and development expenses consist principally of direct personnel costs, costs for pre-production evaluation and testing of new devices and design and test tool costs.

The decrease in research and development expenses for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year is primarily attributable to our commitment to streamlining our processes and focusing our product development on integrated products to meet the needs of our customers. In addition, research and development expenses were lower for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year as we realized benefits from cost saving initiatives implemented in fiscal 2004.

**SELLING, GENERAL AND ADMINISTRATIVE****Three Months Ended December 31,****(in thousands)2004****Change****2003**

Selling, general and administrative \$ 27,224 33.7% \$ 20,361 % of net revenues 12.4% 11.6%

Selling, general and administrative expenses include personnel costs (legal, accounting, treasury, human resources, information systems, customer service, etc.), sales representative commissions, advertising and other marketing costs.

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Selling, general and administrative expenses increased for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year primarily as the result of additional direct selling expenses attributable to an increase in demand for our wireless product portfolio. In addition, selling, general and administrative expenses for the three months ended December 31, 2004 reflects an increase of approximately \$2 million in legal expenses related to protecting our intellectual property portfolio. See Note 11 of Notes to Interim Consolidated Financial Statements for information related to our contingencies.

### AMORTIZATION OF INTANGIBLE ASSETS

#### Three Months Ended December 31,

(in thousands)2004

Change

2003

Amortization    \$    737    (4 .2)%    \$    769    % of net revenues    0.3%    0.4%

In 2002, we recorded \$36.4 million of intangible assets related to the Merger consisting of developed technology, customer relationships and a trademark. These assets are principally being amortized on a straight-line basis over a 10-year period. Amortization expense for the three months ended December 31, 2004 and 2003 primarily represents the amortization of these intangible assets.

### INTEREST EXPENSE

#### Three Months Ended December 31,

(in thousands)2004

Change

2003

Interest expense    \$    3,533    (34 .3)%    \$    5,374    % of net revenues    1.6%    3.1%

The decrease in interest expense for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year is primarily related to the conversion of our \$45 million of senior subordinated notes into shares of our common stock during the third quarter of fiscal 2004.

See Note 4 of Notes to Interim Consolidated Financial Statements for information related to our borrowing arrangements.

### OTHER INCOME, NET

#### Three Months Ended December 31,

(in thousands)2004

Change

2003

Other income, net    \$    1,121    147 .5%    \$    453    % of net revenues    0.5%    0.3%

Other income, net is comprised primarily of foreign exchange gains/losses, interest income on invested cash balances and other non-operating income and expense items. The increase in other income for the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year is primarily related to the recognition of additional foreign exchange gains. We recognized \$0.3 million in foreign exchange gains for the three months ended December 31, 2004 compared to \$0.1 million in foreign exchange losses for the corresponding period in the previous fiscal year. In addition, interest income on invested cash balances increased approximately \$0.3 million for

### OTHER INCOME, NET

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the three months ended December 31, 2004 when compared to the corresponding period in the previous fiscal year primarily as a result of growth in our invested cash balances.

### PROVISION FOR INCOME TAXES

#### Three Months Ended December 31,

(in thousands)2004

Change

2003

Provision for income taxes \$ 6,616 416 .9% \$ 1,280 % of net revenues 3.0% 0.7%

As a result of our history of operating losses and the expectation of future operating results, we determined that it is more likely than not that historic income tax benefits will not be realized except for certain future deductions associated with our foreign operations. Consequently, as of December 31, 2004, we have established a valuation allowance against all of our net U.S. deferred tax assets. Deferred tax assets have been recognized for foreign operations when management believes they will be recovered during the carry forward period.

The provision for income taxes for the three months ended December 31, 2004 and 2003 each consist of approximately \$0.8 million of foreign income taxes incurred by foreign operations. The provision for income taxes also includes \$1.6 million of additional foreign taxes for the three months ended December 31, 2004 related to a change in the expected future benefit of our deferred tax assets as the result of regulated reductions in the applicable tax rates in Mexico. In addition, the provision for income taxes for the three months ended December 31, 2004 and 2003 consists of approximately \$4.2 million and \$0.5 million, respectively, of U.S. income taxes recorded as a charge reducing the carrying value of goodwill. As noted in our annual report on Form 10-K, no benefit has been recognized for certain pre-Merger deferred tax assets. The benefit from the recognition of these deferred items reduces the carrying value of goodwill instead of a reduction of income tax expense. We will evaluate the realization of the pre-Merger deferred tax assets on a quarterly basis and adjust the provision for income taxes accordingly. As a result, the effective tax rate may vary in subsequent quarters.

During the three months ended December 31, 2004, we reversed our policy of permanently reinvesting the earnings of our Mexican subsidiary. We repatriated approximately \$17 million of earnings, which was not subject to Mexican withholding tax and could be applied against U.S. net operating loss carryforwards resulting in no U.S. income tax expense. In future periods we will provide for U.S. income tax currently on earnings attributable to our operations in Mexico. No provision has been made for U.S. federal, state, or additional foreign income taxes which would be due upon the actual or deemed distribution of undistributed earnings of our other foreign subsidiaries, which have been or are intended to be permanently reinvested. The effect on our financial statements is immaterial.

### LIQUIDITY AND CAPITAL RESOURCES

#### Three Months Ended December 31,

(in thousands)2004

2003

Cash and cash equivalents at beginning of period	\$ 203,539	\$ 161,506	Net cash provided by (used in) operating activities	7,127	26,125
Net cash provided by (used in) investing activities	(12,519 )	(9,862 )	Net cash provided by (used in) financing activities	4,056	(1,518 )

Cash and cash equivalents at end of period \$ 202,203 \$ 176,251

During the three months ended December 31, 2004, we made progress in several key areas as we focused our efforts on both cash and inventory management. We significantly reduced the number of days sales outstanding for the three months ended December 31, 2004 to 71 from 79 for the corresponding period in the previous fiscal year. Annualized inventory turns for the three months ended December 31, 2004 were 6.7

### LIQUIDITY AND CAPITAL RESOURCES

compared to 7.2 for the corresponding period in the previous fiscal year. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

During the three months ended December 31, 2004, we generated \$7.1 million in cash from operating activities as we experienced a significant improvement in our operating results when compared to the corresponding period in the previous fiscal year. This was partially offset by a reduction in other liabilities of \$13.8 million primarily related to payment of prior year incentives and semi-annual interest, in addition to an increase of \$13.1 million in our net accounts receivable balance. For the three months ended December 31, 2004, we invested \$10.0 million in capital equipment primarily related to the design of new highly integrated products and processes, enabling us to address new opportunities and to meet our customers' demands. We believe a focused program of capital expenditures will be required to sustain our current manufacturing capabilities. We may also consider acquisition opportunities to extend our technology portfolio and design expertise and to expand our product offerings. Cash provided by financing activities for the three months ended December 31, 2004 primarily represents cash provided by stock option exercises.

Cash provided by operating activities was \$26.1 million for the three months ended December 31, 2003, reflecting net income of \$4.2 million, in addition to non-cash charges, primarily depreciation, amortization, and contribution of common shares to Savings and Retirement Plans of \$10.7 million and a net decrease in the components of working capital of approximately \$11.2 million.

Cash used in investing activities for the three months ended December 31, 2003 consisted of capital expenditures of \$13.9 million partially offset by approximately \$4.0 million of cash provided by the maturity of short-term investments. Cash used in financing activities for the three months ended December 31, 2003 principally consisted of approximately \$2.7 million of net payments to Wachovia Bank, National Association under our Facility Agreement. These financing activity cash outflows were partially offset by approximately \$1.2 million of cash provided by stock option exercises during three months ended December 31, 2003.

Based on our results of operations for the three months ended December 31, 2004 and current trends, we expect our existing sources of liquidity, together with cash expected to be generated from operations, will be sufficient to fund our research and development, capital expenditures, debt obligations, purchase obligations, working capital and other cash requirements for at least the next twelve months. However, we cannot assure you that the capital required to fund these expenses will be available in the future. In addition, any strategic investments and acquisitions that we may make to help us grow our business may require additional capital resources. If we are unable to obtain enough capital to meet our capital needs on a timely basis or at all, our business and operations could be materially adversely affected.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

Our off-balance sheet arrangements consist of operating leases and unconditional purchase obligations. We lease certain facilities and equipment under non-cancelable operating leases. The leases expire at various dates through 2010 and contain various provisions for rental adjustments. The leases generally contain renewal provisions for varying periods of time. Our unconditional purchase obligations relate to supply agreements entered into with Conexant and Jazz Semiconductor. Pursuant to these supply agreements we receive wafer fabrication, wafer probe and certain other services from Jazz Semiconductor and are committed to obtaining certain minimum wafer volumes from Jazz Semiconductor. Our remaining minimum purchase obligations under these supply agreements are approximately \$6.4 million through March 2005, at which time we will no longer have minimum purchase obligations although we expect to continue to utilize Jazz Semiconductor as a supplier in our ordinary course of business.

#### **CERTAIN BUSINESS RISKS**

We operate in a rapidly changing environment that involves a number of risks, many of which are beyond our control. This discussion highlights some of the risks which may affect our future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

#### **We operate in the highly cyclical wireless communications semiconductor industry, which is subject to significant downturns.**

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, changes in general economic conditions, together with other factors, cause significant upturns and downturns in the industry. Periods of industry downturn are characterized by diminished product demand, production overcapacity, excess inventory levels and accelerated erosion of average selling prices. These characteristics, and in particular their impact on the level of demand for digital cellular handsets, may cause substantial fluctuations in our revenues and results of operations. Furthermore, downturns in the semiconductor industry may be severe and prolonged, and any prolonged delay or failure of the industry or the wireless communications market to recover from downturns would materially and adversely affect our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to meet customer demand for our products. We

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have experienced these cyclical fluctuations in our business and may experience cyclical fluctuations in the future.

### **We have incurred substantial operating losses in the past and may experience future losses.**

Our operating results for fiscal years 2002 and 2003 were adversely affected by a global economic slowdown, decreased consumer confidence, reduced capital spending, adverse business conditions and liquidity concerns in the telecommunications and related industries. These factors led to a slowdown in customer orders, an increase in the number of cancellations and reschedulings of backlog, higher overhead costs as a percentage of our reduced net revenue, and an abrupt decline in demand for many of the end-user products that incorporate our wireless communications semiconductor products and system solutions. Although we recently emerged from this period of economic weakness, should economic conditions deteriorate for any reason, it could result in underutilization of our manufacturing capacity, reduced revenues or changes in our revenue mix, and other impacts that would materially and adversely affect our operating results. Due to this economic uncertainty, although we were profitable in fiscal 2004, we cannot assure you that we will be able to sustain such profitability or that we will not experience future operating losses.

Additionally, the conflict in Iraq as well as other contemporary international conflicts, acts of terrorism and civil and military unrest have contributed to the economic uncertainty. These continuing and potentially escalating conflicts can also be expected to place continued pressure on economic conditions in the United States and worldwide. These conditions make it extremely difficult for our customers, our vendors and for us to accurately forecast and plan future business activities. If such uncertainty continues or economic conditions worsen (or both), our business, financial condition and results of operations will likely be materially and adversely affected.

### **The wireless semiconductor markets are characterized by intense competition.**

The wireless communications semiconductor industry in general and the markets in which we compete in particular are intensely competitive. We compete with U.S. and international semiconductor manufacturers of all sizes in terms of resources and market share. We currently face significant competition in our markets and expect that intense price and product competition will continue. This competition has resulted in, and is expected to continue to result in, declining average selling prices for our products and increased challenges in maintaining or increasing market share. Furthermore, additional competitors may enter our markets as a result of growth opportunities in communications electronics, the trend toward global expansion by foreign and domestic competitors and technological and public policy changes. We believe that the principal competitive factors for semiconductor suppliers in our markets include, among others:

- time-to-market;
- timely new product innovation;
- product quality, reliability and performance;
- product price;
- features available in products;
- compliance with industry standards;
- strategic relationships with customers; and
- access to and protection of intellectual property.

We cannot assure you that we will be able to successfully address these factors. Many of our competitors enjoy the benefit of:

- long presence in key markets;
- name recognition;
- high levels of customer satisfaction;
- ownership or control of key technology or intellectual property; and
- strong financial, sales and marketing, manufacturing, distribution, technical or other resources.

As a result, certain competitors may be able to adapt more quickly than we can to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products than we can.

Current and potential competitors have established or may in the future establish financial or strategic relationships among themselves or with customers, resellers or other third parties. These relationships may affect customers' purchasing decisions. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We cannot assure you that we will be able to compete successfully against current and potential competitors. Increased competition could result in pricing pressures, decreased gross margins and loss of market share and may materially and adversely affect our business, financial condition and results of operations.

### **Our success depends upon our ability to develop new products and reduce costs in a timely manner.**

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The wireless communications semiconductor industry generally and, in particular, the markets into which we sell our products are highly cyclical and characterized by constant and rapid technological change, rapid product evolution, price erosion, evolving technical standards, short product life cycles, increasing demand for higher levels of integration and increased miniaturization, and wide fluctuations in product supply and demand. Our operating results depend largely on our ability to continue to cost-effectively introduce new and enhanced products on a timely basis. The successful development and commercialization of semiconductor devices, modules and system solutions is highly complex and depends on numerous factors, including:

- the ability to anticipate customer and market requirements and changes in technology and industry standards;
- the ability to obtain capacity sufficient to meet customer demand;
- the ability to define new products that meet customer and market requirements;
- the ability to complete development of new products and bring products to market on a timely basis;
- the ability to differentiate our products from offerings of our competitors;
- overall market acceptance of our products; and
- the ability to obtain adequate intellectual property protection for our new products.

Our ability to manufacture current products, and to develop new products, depends, among other factors, on the viability and flexibility of our own internal information technology systems ( IT Systems ). We upgrade and change our IT Systems from time to time, and are currently implementing a system upgrade, and there can be no assurance that such upgrade will be successful.

We cannot assure you that we will have sufficient resources to make the substantial investment in research and development needed to develop and bring to market new and enhanced products in a timely manner. We will be required to continually evaluate expenditures for planned product development and to choose among alternative technologies based on our expectations of future market growth. We cannot assure you that we will be able to develop and introduce new or enhanced wireless communications semiconductor products in a timely and cost-effective manner, that our products will satisfy customer requirements or achieve market acceptance or that we will be able to anticipate new industry standards and technological changes. We also cannot assure you that we will be able to respond successfully to new product announcements and introductions by competitors or to changes in the design or specifications of complementary products of third parties with which our products interface. If we fail to rapidly and cost-effectively introduce new and enhanced products in sufficient quantities and that meet our customers requirements, our business and results of operations would be materially and adversely harmed.

In addition, prices of many of our products decline, sometimes significantly, over time. We believe that to remain competitive, we must continue to reduce the cost of producing and delivering existing products at the same time that we develop and introduce new or enhanced products. We cannot assure you that we will be able to continue to reduce the cost of our products to remain competitive.

### **The markets into which we sell our products are characterized by rapid technological change.**

The demand for our products can change quickly and in ways we may not anticipate. Our markets generally exhibit the following characteristics:

- rapid technological developments and product evolution;
- rapid changes in customer requirements;
- frequent new product introductions and enhancements;
- demand for higher levels of integration, decreased size and decreased power consumption;
- short product life cycles with declining prices over the life cycle of the product; and
- evolving industry standards.

These changes in our markets may contribute to the obsolescence of our products. Our products could become obsolete or less competitive sooner than anticipated because of a faster than anticipated change in one or more of the above-noted factors.

### **The ability to attract and retain qualified personnel to contribute to the design, development, manufacture and sale of our products is critical to our success.**

As the source of our technological and product innovations, our key technical personnel represent a significant asset. Our success depends on our ability to continue to attract, retain and motivate qualified personnel, including executive officers and other key management and technical personnel. The competition for management and technical personnel is intense in the semiconductor industry, and therefore we cannot assure you that we will be able to attract and retain qualified management and other personnel necessary for the design, development, manufacture and sale of our products. We may have particular difficulty attracting and retaining key personnel during periods of poor operating performance, given, among other things, the use of equity-based compensation by us and our competitors. The loss of the services of one or more of our key employees or our inability to attract, retain and motivate qualified personnel, could have a material adverse effect on our ability to operate our business.

**If OEMs and ODMs of communications electronics products do not design our products into their equipment, we will have difficulty selling those products. Moreover, a design win from a customer does not guarantee future sales to that customer.**

Our products are not sold directly to the end-user, but are components or subsystems of other products. As a result, we rely on OEMs and ODMs of wireless communications electronics products to select our products from among alternative offerings to be designed into their equipment. Without these design wins, we would have difficulty selling our products. If a manufacturer designs another supplier's product into one of its product platforms, it is more difficult for us to achieve future design wins with that platform because changing suppliers involves significant cost, time, effort and risk on the part of that manufacturer. Also, achieving a design win with a customer does not ensure that we will receive significant revenues from that customer. Even after a design win, the customer is not obligated to purchase our products and can choose at any time to reduce or cease use of our products, for example, if its own products are not commercially successful, or for any other reason. We cannot assure you that we will continue to achieve design wins or to convert design wins into actual sales, and any failure to do so could materially and adversely affect our operating results.

**Lengthy product development and sales cycles associated with many of our products may result in significant expenditures before generating any revenues related to those products.**

After our product has been developed, tested and manufactured, our customers may need three to six months or longer to integrate, test and evaluate our product and an additional three to six months or more to begin volume production of equipment that incorporates the product. This lengthy cycle time increases the possibility that a customer may decide to cancel or change product plans, which could reduce or eliminate our sales to that customer. As a result of this lengthy sales cycle, we may incur significant research and development expenses, and selling, general and administrative expenses, before we generate the related revenues for these products. Furthermore, we may never generate the anticipated revenues from a product after incurring such expenses if our customer cancels or changes its product plans.

**Uncertainties involving the ordering and shipment of our products could adversely affect our business.**

Our sales are typically made pursuant to individual purchase orders and not under long-term supply arrangements with our customers. Our customers may cancel orders before shipment. Additionally, we sell a portion of our products through distributors, some of whom have rights to return unsold products. We may purchase and manufacture inventory based on estimates of customer demand for our products, which is difficult to predict. This difficulty may be compounded when we sell to OEMs indirectly through distributors or contract manufacturers, or both, as our forecasts of demand will then be based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products, or overproduction due to a change in anticipated order volumes could result in us holding excess or obsolete inventory, which could result in inventory write-downs and, in turn, could have a material adverse effect on our financial condition.

**Our reliance on a small number of customers for a large portion of our sales could have a material adverse effect on the results of our operations.**

A significant portion of our sales are concentrated among a limited number of customers. If we lost one or more of these major customers, or if one or more major customers significantly decreased its orders of our products, our business would be materially and adversely affected. Sales to Motorola, Inc. and to Samsung Electronics Co. represented approximately 14% and 12%, respectively, of net revenues for fiscal 2004. Our future operating results will depend on the success of these customers and other customers and our success in selling products to them.

**Average product life cycles in the semiconductor industry tend to be very short.**

In the semiconductor industry, product life cycles tend to be short relative to the sales and development cycles. Therefore, the resources devoted to product sales and marketing may not result in material revenue, and from time to time we may need to write off excess or obsolete inventory. If we were to incur significant marketing expenses and investments in inventory that we are not able to recover, and we are not able to compensate for those expenses, our operating results would be materially and adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions but still hold higher cost products in inventory, our operating results would be harmed.

**Our leverage and our debt service obligations may adversely affect our cash flow.**

On December 31, 2004, we had total indebtedness of approximately \$280 million, which represented approximately 28% of our total capitalization.

As long as our 4.75 percent convertible subordinated notes remain outstanding, we will have debt service obligations on such notes of approximately \$10,925,000 per year in interest payments. If we issue other debt securities in the future, our debt service obligations will increase. If we are unable to generate sufficient cash to meet these obligations and must instead use our existing cash or investments, we may have to reduce or curtail other activities of our business.



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We intend to fulfill our debt service obligations from cash generated by our operations, if any, and from our existing cash and investments. If necessary, among other alternatives, we may add lease lines of credit to finance capital expenditures and we may obtain other long-term debt, lines of credit and other financing.

Our indebtedness could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of any cash flow from operations to service our indebtedness, thereby reducing the amount of cash flow available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources.

Despite our current debt levels, we are able to incur substantially more debt, which would increase the risks described above.

### **We face a risk that capital needed for our business will not be available when we need it.**

We may need to obtain sources of financing in the future. We expect our existing sources of liquidity, together with cash expected to be generated from operations, will be sufficient to fund our research and development, capital expenditures, debt obligations, purchase obligations, working capital and other cash requirements for at least the next twelve months. However, we cannot assure you that the capital required to fund these expenses will be available in the future. To the extent that existing cash and securities and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Conditions existing in the U.S. capital markets if and when we seek additional financing as well as the then current condition of the Company will affect our ability to raise capital, as well as the terms of any such financing. We may not be able to raise enough capital to meet our capital needs on a timely basis or at all. Failure to obtain capital when required would have a material adverse effect on the Company.

In addition, any strategic investments and acquisitions that we may make to help us grow our business may require additional capital resources. We cannot assure you that the capital required to fund these investments and acquisitions will be available in the future.

### **Our manufacturing processes are extremely complex and specialized.**

Our manufacturing operations are complex and subject to disruption, including for causes beyond our control. The fabrication of integrated circuits is an extremely complex and precise process consisting of hundreds of separate steps. It requires production in a highly controlled, clean environment. Minor impurities, contamination of the clean room environment, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer, defects in equipment or materials, human error, or a number of other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to malfunction. Because our operating results are highly dependent upon our ability to produce integrated circuits at acceptable manufacturing yields, these factors present could have a material adverse effect on our business. In addition, we may discover from time to time defects in our products after they have been shipped, which may require us to replace such products.

Additionally, our operations may be affected by lengthy or recurring disruptions of operations at any of our production facilities or those of our subcontractors. These disruptions may include electrical power outages, fire, earthquake, flooding, war, acts of terrorism, or other natural or man-made disasters. Disruptions of our manufacturing operations could cause significant delays in shipments until we are able to shift the products from an affected facility or subcontractor to another facility or subcontractor. In the event of such delays, we cannot assure you that the required alternative capacity, particularly wafer production capacity, would be available on a timely basis or at all. Even if alternative wafer production or assembly and test capacity is available, we may not be able to obtain it on favorable terms, which could result in higher costs and/or a loss of customers. We may be unable to obtain sufficient manufacturing capacity to meet demand, either at our own facilities or through external manufacturing or similar arrangements with others.

Due to the highly specialized nature of the gallium arsenide integrated circuit manufacturing process, in the event of a disruption at the Newbury Park, California or Woburn, Massachusetts semiconductor wafer fabrication facilities, alternative gallium arsenide production capacity would not be immediately available from third-party sources. These disruptions could have a material adverse effect on our business, financial condition and results of operations.

### **We may not be able to maintain and improve manufacturing yields that contribute positively to our gross margin and profitability.**

Minor deviations or perturbations in the manufacturing process can cause substantial manufacturing yield loss, and in some cases, cause production to be suspended. Manufacturing yields for new products initially tend to be lower as we complete product development and commence volume manufacturing, and typically increase as we bring the product to full production. Our forward product pricing includes this

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assumption of improving manufacturing yields and, as a result, material variances between projected and actual manufacturing yields will have a direct effect on our gross margin and profitability. The difficulty of accurately forecasting manufacturing yields and maintaining cost competitiveness through improving manufacturing yields will continue to be magnified by the increasing process complexity of manufacturing semiconductor products. Our manufacturing operations will also face pressures arising from the compression of product life cycles, which will require us to manufacture new products faster and for shorter periods while maintaining acceptable manufacturing yields and quality without, in many cases, reaching the longer-term, high-volume manufacturing conducive to higher manufacturing yields and declining costs.

### **We are dependent upon third parties for the manufacture, assembly and test of our products.**

We rely upon independent wafer fabrication facilities, called foundries, to provide silicon-based products and to supplement our gallium arsenide wafer manufacturing capacity. We also utilize subcontractors to package, assemble and test our products. There are significant risks associated with reliance on third-party foundries, including:

- the lack of ensured wafer supply, potential wafer shortages and higher wafer prices;
- limited control over delivery schedules, manufacturing yields, production costs and quality assurance; and
- the inaccessibility of, or delays in obtaining access to, key process technologies.

Although we have long-term supply arrangements to obtain additional external manufacturing capacity, the third-party foundries we use may allocate their limited capacity to the production requirements of other customers. If we choose to use a new foundry, it will typically take an extended period of time to complete the qualification process before we can begin shipping products from the new foundry. The foundries may experience financial difficulties, be unable to deliver products to us in a timely manner or suffer damage or destruction to their facilities, particularly since some of them are located in earthquake zones. If any disruption of manufacturing capacity occurs, we may not have alternative manufacturing sources immediately available. We may therefore experience difficulties or delays in securing an adequate supply of our products, which could impair our ability to meet our customers' needs and have a material adverse effect on our operating results.

### **We are dependent upon third parties for the supply of raw materials and components.**

Our manufacturing operations depend on obtaining adequate supplies of raw materials and the components used in our manufacturing processes. We believe we have adequate sources for the supply of raw materials and components for our manufacturing needs with suppliers located around the world. While we do not typically rely on a single source of supply for our raw materials, we are currently dependent on a sole-source supplier for epitaxial wafers used in the gallium arsenide semiconductor manufacturing processes at our manufacturing facilities. We cannot assure you that we will not lose a significant or sole supplier or that a supplier will be able to meet performance and quality specifications or delivery schedules. If we lost a supplier or a supplier were unable to meet performance or quality specifications or delivery schedules, our ability to satisfy customer obligations could be materially and adversely affected. In addition, we review our relationships with suppliers of raw materials and components for our manufacturing needs on an ongoing basis. In connection with our ongoing review, we may modify or terminate our relationship with one or more suppliers. We may also enter into other sole supplier arrangements to meet certain of our raw material or component needs. If we were to enter into additional sole supplier arrangements for any of our raw materials or components, the risks associated with our supply arrangements would be exacerbated.

### **Remaining competitive in the semiconductor industry requires transitioning to smaller geometry process technologies and achieving higher levels of design integration.**

In order to remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products, design new products to more stringent standards, and to redesign some existing products. In the past, we have experienced some difficulties migrating to smaller geometry process technologies or new manufacturing processes, which resulted in sub-optimal manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes in the future. In some instances, we depend on our relationships with our foundries to transition to smaller geometry processes successfully. We cannot assure you that our foundries will be able to effectively manage the transition or that we will be able to maintain our foundry relationships. If our foundries or we experience significant delays in this transition or fail to efficiently implement this transition, our business, financial condition and results of operations could be materially and adversely affected. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, or at all.

### **We are subject to the risks of doing business internationally.**

A substantial majority of our net revenues are derived from customers located outside the United States, primarily countries located in the Asia-Pacific region and Europe. In addition, we have design centers and suppliers located outside the United States, and third-party packaging, assembly and test facilities and foundries located in the Asia-Pacific region. Finally, we have our own packaging, assembly and test facility in

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Mexicali, Mexico. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local economic and political conditions, including social, economic and political instability;
- disruptions of capital and trading markets;
- restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including export duties, quotas, customs duties, import or export controls and tariffs);
- changes in legal or regulatory requirements;
- natural disasters, acts of terrorism, widespread illness and war;
- limitations on the repatriation of funds;
- difficulty in obtaining distribution and support;
- cultural differences in the conduct of business;
- the laws and policies of the United States and other countries affecting trade, foreign investment and loans, and import or export licensing requirements;
- tax laws;
- the possibility of being exposed to legal proceedings in a foreign jurisdiction; and
- limitations on our ability under local laws to protect or enforce our intellectual property rights in a particular foreign jurisdiction.

Additionally, we are subject to risks in certain global markets in which wireless operators provide subsidies on handset sales to their customers. Increases in handset prices that negatively impact handset sales can result from changes in regulatory policies or other factors, which could impact the demand for our products. Limitations or changes in policy on phone subsidies in South Korea, Japan, China and other countries may have additional negative impacts on our revenues.

### **Our operating results may be adversely affected by substantial quarterly and annual fluctuations and market downturns.**

Our revenues, earnings and other operating results have fluctuated in the past and our revenues, earnings and other operating results may fluctuate in the future. These fluctuations are due to a number of factors, many of which are beyond our control.

These factors include, among others:

- changes in end-user demand for the products (principally digital cellular handsets) manufactured and sold by our customers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products;
- production capacity levels and fluctuations in manufacturing yields;
- availability and cost of products from our suppliers;
- the gain or loss of significant customers;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- new product and technology introductions by competitors;
- changes in the mix of products produced and sold;
- market acceptance of our products and our customers;
- intellectual property disputes;

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly or annual operating results. If our operating results fail to meet the expectations of analysts or investors, it could materially and adversely affect the price of our common stock.

### **Global economic conditions that impact the wireless communications industry could negatively affect our revenues and operating results.**

Global economic weakness can have wide-ranging effects on markets that we serve, particularly wireless communications equipment manufacturers and network operators. The wireless communications industry appears to be recovering from an industry-wide recession. We cannot predict whether a recovery will continue, the rate of any such recovery, or what effects negative events, such as war, may have on the economy or the wireless communications industry. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the global economy and to the wireless communications industry and create further uncertainties. Further, an economic recovery may not benefit us in the near term. If it does not, our ability to increase or maintain our revenues and operating results may be impaired.

### **Our gallium arsenide semiconductors may cease to be competitive with silicon alternatives.**

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Among our product portfolio, we manufacture and sell gallium arsenide semiconductor devices and components, principally power amplifiers and switches. The production of gallium arsenide integrated circuits is more costly than the production of silicon circuits. The cost differential is due to higher costs of raw materials for gallium arsenide and higher unit costs associated with smaller sized wafers and lower production volumes. Therefore, to remain competitive, we must offer gallium arsenide products that provide superior performance over their silicon-based counterparts. If we do not continue to offer products that provide sufficiently superior performance to justify the cost differential, our operating results may be materially and adversely affected. We expect the costs of producing gallium arsenide devices will continue to exceed the costs of producing their silicon counterparts. Silicon semiconductor technologies are widely-used process technologies for certain integrated circuits and these technologies continue to improve in performance. We cannot assure you that we will continue to identify products and markets that require performance attributes of gallium arsenide solutions.

### **We may be subject to claims of infringement of third-party intellectual property rights, or demands that we license third-party technology, which could result in significant expense and prevent us from using our technology.**

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 our business and have demanded and may in the future demand that we license their technology or refrain from using it. At the present time, we are in litigation with Qualcomm Incorporated regarding claims each of us have filed and served against the other asserting violations of certain of our respective intellectual property rights. Although we believe their claims are without merit and we are vigorously defending against their claims and fully prosecuting our claims against them, we cannot assure you that we will be successful in defending ourselves from their claims or prosecuting our claims.

Any litigation to determine the validity of claims that our products infringe or may infringe intellectual property rights of another, including claims arising from our contractual indemnification of our customers, regardless of their merit or resolution, could be costly and divert the efforts and attention of our management and technical personnel. Regardless of the merits of any specific claim, we cannot assure you that we would prevail in litigation because of the complex technical issues and inherent uncertainties in intellectual property litigation. If litigation were to result in an adverse ruling, we could be required to:

- pay substantial damages;
- cease the manufacture, import, use, sale or offer for sale of infringing products or processes;
- discontinue the use of infringing technology;
- expend significant resources to develop non-infringing technology; and
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms.

We cannot assure you that our operating results or financial condition will not be materially adversely affected if we were required to do any one or more of the foregoing items.

### **Many of our products incorporate technology licensed or acquired from third parties.**

We sell products in markets that are characterized by rapid technological changes, evolving industry standards, frequent new product introductions, short product life cycles and increasing levels of integration. Our ability to keep pace with this market depends on our ability to obtain technology from third parties on commercially reasonable terms to allow our products to remain in a competitive posture. If licenses to such technology are not available on commercially reasonable terms and conditions, and we cannot otherwise integrate such technology, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. In such instances, we could also incur substantial unanticipated costs or scheduling delays to develop substitute technology to deliver competitive products.

### **If we are not successful in protecting our intellectual property rights, it may harm our ability to compete.**

We rely on patent, copyright, trademark, trade secret and other intellectual property laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies, information, data, devices, algorithms and processes. In addition, we often incorporate the intellectual property of our customers, suppliers or other third parties into our designs, and we have obligations with respect to the non-use and non-disclosure of such third-party intellectual property. In the future, it may be necessary to engage in litigation or like activities to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others, including our customers. This could require us to expend significant resources and to divert the efforts and attention of our management and technical personnel from our business operations. We cannot assure you that:

- the steps we take to prevent misappropriation, infringement, dilution or other violation of our intellectual property or the intellectual property of our customers, suppliers or other third parties will be successful;
- any existing or future patents, copyrights, trademarks, trade secrets or other intellectual property rights or ours will not be challenged, invalidated or circumvented; or

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any of the measures described above would provide meaningful protection.

Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. If any of our intellectual property protection mechanisms fails to protect our technology, it would make it easier for our competitors to offer similar products, potentially resulting in loss of market share and price erosion. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited for certain technologies and in certain foreign countries.

### **Our success depends, in part, on our ability to effect suitable investments, alliances and acquisitions, and to integrate companies we acquire.**

Although we have in the past and intend to continue to invest significant resources in internal research and development activities, the complexity and rapidity of technological changes and the significant expense of internal research and development make it impractical for us to pursue development of all technological solutions on our own. On an ongoing basis, we intend to review investment, alliance and acquisition prospects that would complement our product offerings, augment our market coverage or enhance our technological capabilities. However, we cannot assure you that we will be able to identify and consummate suitable investment, alliance or acquisition transactions in the future. Moreover, if we consummate such transactions, they could result in:

- issuances of equity securities dilutive to our stockholders; large one-time write-offs;
- the incurrence of substantial debt and assumption of unknown liabilities;
- the potential loss of key employees from the acquired company;
- amortization expenses related to intangible assets; and
- the diversion of management's attention from other business concerns.

Moreover, integrating acquired organizations and their products and services may be difficult, expensive, time-consuming and a strain on our resources and our relationship with employees and customers and ultimately may not be successful. Additionally, in periods following an acquisition, we will be required to evaluate goodwill and acquisition-related intangible assets for impairment. When such assets are found to be impaired, they will be written down to estimated fair value, with a charge against earnings. For instance, we recorded a cumulative effect of a change in accounting principle in fiscal 2003 in the amount of \$397.1 million as a result of the goodwill obtained in connection with the Merger.

### **Certain provisions in our organizational documents and Delaware law may make it difficult for someone to acquire control of us.**

We have certain anti-takeover measures that may affect our common stock. Our certificate of incorporation, our by-laws and the Delaware General Corporation Law contain several provisions that would make more difficult an acquisition of control of us in a transaction not approved by our Board of Directors. Our certificate of incorporation and by-laws include provisions such as:

- the division of our board of directors into three classes to be elected on a staggered basis, one class each year;
- the ability of our board of directors to issue shares of preferred stock in one or more series without further authorization of stockholders;
- a prohibition on stockholder action by written consent;
- elimination of the right of stockholders to call a special meeting of stockholders;
- a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders;
- a requirement that the affirmative vote of at least 66 2/3 percent of our shares be obtained to amend or repeal any provision of our by-laws or the provision of our certificate of incorporation relating to amendments to our by-laws;
- a requirement that the affirmative vote of at least 80 percent of our shares be obtained to amend or repeal the provisions of our certificate of incorporation relating to the election and removal of directors, the classified board or the right to act by written consent;
- a requirement that the affirmative vote of at least 80 percent of our shares be obtained for business combinations unless approved by a majority of the members of the board of directors and, in the event that the other party to the business combination is the beneficial owner of 5 percent or more of our shares, a majority of the members of board of directors in office prior to the time such other party became the beneficial owner of 5 percent or more of our shares;
- a fair price provision; and
- a requirement that the affirmative vote of at least 90 percent of our shares be obtained to amend or repeal the fair price provision.

In addition to the provisions in our certificate of incorporation and by-laws, Section 203 of the Delaware General Corporation Law generally provides that a corporation shall not engage in any business combination with any interested stockholder during the three-year period following the time that such stockholder becomes an interested stockholder, unless a majority of the directors then in office approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

**We may be liable for penalties under environmental laws, rules and regulations, which could adversely impact our business.**

We have used, and will continue to use, a variety of chemicals and compounds in manufacturing operations and have been and will continue to be subject to a wide range of environmental protection regulations in the United States. We cannot assure you that current or future regulation of the materials necessary for our products would not have a material adverse effect on our business, financial condition and results of operations. Environmental regulations often require parties to fund remedial action for violations of such regulations regardless of fault. Consequently, it is often difficult to estimate the future impact of environmental matters, including potential liabilities. We cannot assure you that the amount of expense and capital expenditures that might be required to satisfy environmental liabilities, to complete remedial actions and to continue to comply with applicable environmental laws will not have a material adverse effect on our business, financial condition and results of operations.

**Our stock price has been volatile and may fluctuate in the future. Accordingly, you might not be able to sell your shares of common stock at or above the price you paid for them.**

The trading price of our common stock has and may continue to fluctuate significantly. Such fluctuations may be influenced by many factors, including:

- our performance and prospects;
- the performance and prospects of our major customers;
- the depth and liquidity of the market for our common stock;
- investor perception of us and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and
- domestic and international economic conditions.

Public stock markets have recently experienced extreme price and trading volume volatility, particularly in the technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to or disproportionately impacted by the operating performance of these companies. These broad market fluctuations may materially and adversely affect the market price of our common stock.

In addition, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis. Furthermore, if our operating results do not meet the expectations of securities analysts or investors, our stock price may decline, possibly substantially over a short period of time. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid.

**Changes in the accounting treatment of stock options could adversely affect our results of operations.**

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, *Share-Based Payment* to require companies to expense employee stock options for financial reporting purposes, effective for interim or annual periods beginning after June 15, 2005. Such stock option expensing will require us to value our employee stock option grants pursuant to an option valuation formula and amortize that value against our earnings over the vesting period in effect for those options. We currently account for stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and have adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation*. When we are required to expense employee stock options in the future, this change in accounting treatment could materially and adversely affect our reported results of operations as the stock-based compensation expense would be charged directly against our reported earnings. For an illustration of the effect of such a change on our recent results of operations, see Note 9 of Notes to Interim Consolidated Financial Statements.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have exposure to foreign exchange and interest rate risk. There have been no material changes in market risk exposures from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

#### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report (the Evaluation Date ). Based upon that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There were no significant changes made in our internal control over financial reporting during the fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### PART II OTHER INFORMATION

#### ITEM 5. OTHER INFORMATION

(a)

Mr. Donald Beall has notified the Registrant of his intention to resign from the Board of Directors of the Registrant immediately following the next Annual Meeting of the Stockholders of the Registrant. Mr. Beall's resignation is a planned reduction in his many commitments and is not the result of any disagreement with the Registrant. In addition, on February 1, 2005, Mr. David McGlade was elected to the Board of Directors of the Registrant as a Class III Director. The Registrant anticipates that Mr. McGlade will be appointed to the Audit Committee of the Board of Directors at a later date.

#### ITEM 6. EXHIBITS

(a) Exhibits

Number	Description
31.a Certification of CEO - Rule 13a-14(a) or 15d-14(a) *	31.b Certification of CFO - Rule 13a-14(a) or 15d-14(a) * 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

\* Filed herewith.

## 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.

Date: February 7, 2005

SKYWORKS SOLUTIONS, INC.

Registrant

By: /s/ DAVID J. ALDRICH     David J. Aldrich     Chief Executive Officer     President     Director

By: /s/ ALLAN M. KLINE     Allan M. Kline     Chief Financial Officer

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## EXHIBIT INDEX

Number

Description

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31.a	Certification of CEO - Rule 13a-14(a) or 15d-14(a)	31.b	Certification of CFO - Rule 13a-14(a) or 15d-14(a)	32	Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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