

SKYWORKS SOLUTIONS INC

Form 10-Q

August 06, 2008

Table of Contents

**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 **June 27, 2008**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number 1-5560
SKYWORKS SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

04-2302115
*(I.R.S. Employer
Identification No.)*

20 Sylvan Road, Woburn, Massachusetts
(Address of principal executive offices)

01801
(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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

<u>Class</u>	<u>Outstanding at July 31, 2008</u>
Common Stock, par value \$.25 per share	164,943,657

SKYWORKS SOLUTIONS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 27, 2008
TABLE OF CONTENTS

	PAGE NO.
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1: FINANCIAL STATEMENTS</u>	
<u>CONSOLIDATED STATEMENTS OF OPERATIONS THREE AND NINE MONTHS ENDED JUNE 27, 2008 (UNAUDITED) AND JUNE 29, 2007 (UNAUDITED)</u>	3
<u>CONSOLIDATED BALANCE SHEETS JUNE 27, 2008 (UNAUDITED) AND SEPTEMBER 28, 2007</u>	4
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED JUNE 27, 2008 (UNAUDITED) AND JUNE 29, 2007 (UNAUDITED)</u>	5
<u>NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	6
<u>ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	16
<u>ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	25
<u>ITEM 4: CONTROLS AND PROCEDURES</u>	26
<u>PART II OTHER INFORMATION</u>	26
<u>ITEM 1A: RISK FACTORS</u>	26
<u>ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	26
<u>ITEM 6: EXHIBITS</u>	27
<u>SIGNATURES</u>	28
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements**

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

	Three-months		Nine-months Ended	
	Ended	Ended	Ended	Ended
	June 27,	June 29,	June 27,	June 29,
	2008	2007	2008	2007
Net revenues	\$ 215,210	\$ 175,050	\$ 627,451	\$ 551,290
Cost of goods sold	128,776	106,418	378,312	338,640
Gross profit	86,434	68,632	249,139	212,650
Operating expenses:				
Research and development	36,561	30,549	107,236	92,344
Selling, general and administrative	25,975	24,874	74,608	72,652
Amortization of intangible assets	1,101	536	4,904	1,608
Restructuring and special charges		257		5,730
Total operating expenses	63,637	56,216	186,748	172,334
Operating income	22,797	12,416	62,391	40,316
Interest expense	(1,658)	(2,565)	(5,635)	(9,928)
Other income, net	1,064	2,766	4,997	7,824
Income before income taxes	22,203	12,617	61,753	38,212
Provision for income taxes	1,737	1,194	5,536	2,555
Net income	\$ 20,466	\$ 11,423	\$ 56,217	\$ 35,657
Per share information:				
Net income, basic	\$ 0.13	\$ 0.07	\$ 0.35	\$ 0.22
Net income, diluted	\$ 0.12	\$ 0.07	\$ 0.34	\$ 0.22
Number of weighted-average shares used in per share computations, basic	162,095	158,606	161,166	160,159
Number of weighted-average shares used in per share computations, diluted	164,649	160,032	163,323	161,278

The following table summarizes share-based compensation expense for the three and nine-month periods ended June 27, 2008 and June 29, 2007 which is included in the financial statement line items above as follows:

	Three-months		Nine-months	
	Ended	Ended	Ended	Ended
	June 27,	June 29,	June 27,	June 29,

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(In thousands)	2008	2007	2008	2007
Cost of goods sold	651	475	2,162	876
Research and development	2,436	1,545	6,202	3,653
Selling, general and administrative	3,025	1,625	8,398	5,187

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

3

Table of Contents

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

	June 27, 2008 (Unaudited)	As of September 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 248,015	\$ 241,577
Short-term investments		5,700
Restricted cash	5,962	6,502
Receivables, net of allowance for doubtful accounts of \$1,613 and \$1,662	169,289	167,319
Inventories	96,119	82,109
Other current assets	10,282	10,511
Total current assets	529,667	513,718
Property, plant and equipment, net	171,636	153,516
Goodwill	489,961	480,890
Intangible assets, net	21,157	13,442
Deferred tax assets	14,536	14,459
Other assets	14,051	13,883
Total assets	\$ 1,241,008	\$1,189,908
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 50,000	\$ 99,335
Accounts payable	69,239	56,417
Accrued compensation and benefits	29,168	28,392
Other current liabilities	8,444	13,079
Total current liabilities	156,851	197,223
Long-term debt, less current maturities	200,000	200,000
Other long-term liabilities	5,773	6,338
Total liabilities	362,624	403,561
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value: 25,000 shares authorized, no shares issued		
Common stock, \$0.25 par value: 525,000 shares authorized; 169,570 shares issued and 164,880 shares outstanding at June 27, 2008 and 165,593 shares issued and 161,101 shares outstanding at September 28, 2007	41,220	40,275

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Additional paid-in capital	1,420,336	1,382,230
Treasury stock	(33,581)	(31,855)
Accumulated deficit	(547,872)	(604,089)
Accumulated other comprehensive loss	(1,719)	(214)
Total stockholders' equity	878,384	786,347
Total liabilities and stockholders' equity	\$ 1,241,008	\$1,189,908

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

4

Table of Contents

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

	Nine-months Ended	
	June 27, 2008	June 29, 2007
Cash flows from operating activities:		
Net income	\$ 56,217	\$ 35,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	16,762	9,716
Depreciation	33,434	28,829
Charge in lieu of income tax expense	4,709	1,515
Amortization of intangible assets	5,522	1,608
Amortization of deferred financing costs	1,332	1,800
Contribution of common shares to savings and retirement plans	6,378	5,259
Non-cash restructuring expense		419
Deferred income taxes	(313)	(324)
Loss on sales of assets	292	226
Provision for (losses) recoveries on accounts receivable	(48)	1,725
Changes in assets and liabilities:		
Receivables	(1,922)	(7,271)
Inventories	(8,427)	(1,989)
Other current and long-term assets	619	(174)
Accounts payable	12,822	(15,396)
Other current and long-term liabilities	(5,302)	(6,839)
Net cash provided by operating activities	122,075	54,761
Cash flows from investing activities:		
Capital expenditures	(51,846)	(30,565)
Payments for acquisitions	(32,627)	
Sale of short-term investments	10,000	587,183
Purchase of short-term investments	(7,500)	(633,933)
Net cash used in investing activities	(81,973)	(77,315)
Cash flows from financing activities:		
Proceeds from notes offering		200,000
Payments on long-term borrowings		(130,000)
Deferred financing costs		(6,189)
Retirement of Junior Notes	(49,335)	
Change in restricted cash	541	(200)
Repurchase of common stock	(1,727)	(30,764)
Net proceeds from exercise of stock options	16,857	6,153

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Net cash provided by (used in) financing activities	(33,664)	39,000
Net increase in cash and cash equivalents	6,438	16,446
Cash and cash equivalents at beginning of period	241,577	136,749
Cash and cash equivalents at end of period	\$ 248,015	\$ 153,195
Supplemental cash flow disclosures:		
Taxes paid	\$ 679	\$ 926
Interest paid	\$ 4,159	\$ 10,195

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

Table of Contents

SKYWORKS SOLUTIONS, INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc. (Skyworks or the Company) designs, manufactures and markets a broad range of high performance analog and mixed signal semiconductors that enable wireless connectivity. Our power amplifiers (PAs), front-end modules (FEMs) and integrated radio frequency (RF) solutions can be found in many of the cellular handsets sold by the world's leading manufacturers. Leveraging our core analog technologies, we also offer a diverse portfolio of linear integrated circuits (ICs) that support automotive, broadband, cellular infrastructure, industrial and medical applications.

The accompanying unaudited 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 and nine-month periods ended June 27, 2008 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 28, 2007 as filed with the SEC.

The Company's fiscal year ends on the Friday closest to September 30. Fiscal 2007 consisted of 52 weeks and ended on September 28, 2007, and the third quarters of fiscal 2008 and fiscal 2007 each consisted of 13 weeks and ended on June 27, 2008 and June 29, 2007, respectively. Fiscal 2008 will consist of 53 weeks and end on October 3, 2008, with the first three quarters of fiscal 2008 consisting of 13 weeks, and the fourth quarter of fiscal 2008 consisting of 14 weeks.

2. BUSINESS COMBINATIONS

In October 2007, the Company paid \$32.6 million in cash to acquire certain assets from two separate companies. The Company acquired raw materials, die bank, finished goods, proprietary GaAs PA/FEM designs and related intellectual property in a business combination from Freescale Semiconductor. We also acquired sixteen fundamental HBT and RF MEMs patents in an asset acquisition from another company. The purchase accounting on these acquisitions was finalized in March 2008.

The purchase prices as of October 23, 2007 were allocated based upon the fair value of the tangible and intangible assets acquired to allocate the purchase prices in accordance with Statement of Financial Accounting Standards (SFAS) 141, *Business Combinations*. Based upon those calculations, the Company has definitively concluded that customer relationships have a fair value of \$8.5 million, order backlog has a fair value of \$1.6 million, developed technology has a fair value of \$1.3 million, the Master Foundry Services agreement has a fair value of \$0.9 million, patents have a fair value of \$0.9 million, inventories have a fair value of \$5.6 million and the remaining purchase price of \$13.8 million is allocated to goodwill. The intangible assets will be amortized over periods ranging from .5 years to 5 years.

The Company's primary reasons for the above acquisitions were to expand its market share in power amplifiers and front end modules at certain existing customers, and increase the probability of future design wins with these customers. The significant factors that resulted in recognition of goodwill in one of the transactions were: (a) the purchase price was based on cash flow projections assuming the sale of the acquired inventory and the sale of the Company's next generation product (a derivative of the acquired inventory); and (b) there were very few tangible and identifiable intangible assets that qualified for recognition.

Table of Contents**SKYWORKS SOLUTIONS, INC.****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Continued**

The Consolidated Financial Statements include the operating results of the acquired business from the date of acquisition. Pro forma results of operations for these acquisitions completed during the nine-month period ended June 27, 2008 have not been presented because the effects of the acquisitions were not material to the Company's financial results.

3. AVAILABLE FOR SALE SECURITIES

The Company accounts for its investment in debt and equity securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and classifies them as available for sale. These securities consist of \$3.2 million in amortized cost of auction rate securities (ARS), which are long-term debt instruments which provide liquidity through a Dutch auction process that resets interest rates each month. The recent uncertainties in the credit markets have disrupted the liquidity of this process resulting in failed auctions.

In the three and nine-month periods ended June 27, 2008, the carrying value of these securities was reduced by \$0.0 million and \$1.5 million, respectively, reflecting a change in fair value. The Company assessed these declines in fair value to be temporary and recorded this reduction in shareholders' equity in accumulated other comprehensive loss. The Company will continue to closely monitor these ARS and evaluate the appropriate accounting treatment in each reporting period. The Company holds no other auction rate securities.

ARS were classified in prior periods as current assets under Short-term Investments. Given the failed auctions, the Company's ARS are considered to be illiquid until there is a successful auction. Accordingly, the remaining ARS balance has been reclassified to non-current other assets.

4. INVENTORIES

Inventories consist of the following (in thousands):

	June 27, 2008	September 28, 2007
Raw materials	\$ 7,570	\$ 6,624
Work-in-process	58,907	48,128
Finished goods	29,642	27,357
	\$ 96,119	\$ 82,109

5. PROPERTY, PLANT AND EQUIPMENT

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

	June 27, 2008	September 28, 2007
Land	\$ 9,423	\$ 9,423
Land and leasehold improvements	4,453	4,394
Buildings	39,998	39,730
Furniture and Fixtures	25,884	24,485
Machinery and equipment	378,897	343,551
Construction in progress	24,866	12,671
	483,521	434,254
Accumulated depreciation and amortization	(311,885)	(280,738)

\$ 171,636 \$ 153,516

7

Table of Contents**SKYWORKS SOLUTIONS, INC.****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Continued****6. GOODWILL AND INTANGIBLE ASSETS**

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

	Weighted Average Amortization Period (Years)	June 27, 2008			September 28, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		\$ 489,961	\$	\$ 489,961	\$ 480,890	\$	\$ 480,890
Amortized intangible assets							
Developed technology	5-10	\$ 11,850	\$ (7,249)	\$ 4,601	\$ 10,550	\$ (6,399)	\$ 4,151
Customer relationships	5-10	21,210	(8,907)	12,303	12,700	(6,678)	6,022
Patents	3	900	(225)	675			
Other	.5-3	2,649	(2,340)	309	122	(122)	
		36,609	(18,721)	17,888	23,372	(13,199)	10,173
Unamortized intangible assets							
Trademarks		3,269		3,269	3,269		3,269
Total intangible assets		\$ 39,878	\$ (18,721)	\$ 21,157	\$ 26,641	\$ (13,199)	\$ 13,442

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

	Three-months Ended		Nine-months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Amortization expense	\$1,411	\$536	\$5,522	\$1,608

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

	Goodwill and Intangible Assets					Total
	Goodwill	Developed Technology	Customer Relationships	Trademarks	Patents and Other	
Balance as of September 28, 2007	\$ 480,890	\$ 10,550	\$ 12,700	\$ 3,269	\$ 122	\$ 507,531
Additions during period	13,779	1,300	8,510		3,427	27,016
Deductions during period	(4,708)					(4,708)

Balance as of June 27, 2008	\$ 489,961	\$ 11,850	\$ 21,210	\$ 3,269	\$ 3,549	\$ 529,839
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In October 2007, the Company paid \$32.6 million in cash to acquire certain assets from two separate companies resulting in the allocation of approximately \$13.8 million to goodwill. For additional information regarding these acquisitions see Note 2, Business Combinations.

Goodwill was reduced by \$4.7 million in the nine-month period ended June 27, 2008 as a result of the realization of deferred tax assets. The benefit from the recognition of a portion of these deferred items reduces the carrying value of goodwill instead of reducing income tax expense. Accordingly, future realization of certain deferred tax assets will reduce the carrying value of goodwill. The remaining deferred tax assets that could reduce goodwill in future periods are \$13.9 million as of June 27, 2008.

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

	2008	2009	2010	2011	2012
Amortization expense	\$6,933	\$4,406	\$4,406		