

SKYWORKS SOLUTIONS INC

Form 10-Q

May 09, 2007

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**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 March 30, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer

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.

Class	Outstanding at May 2, 2007
Common Stock, par value \$.25 per share	159,898,909

SKYWORKS SOLUTIONS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 30, 2007
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited, in thousands, except per share amounts)

	Three-months Ended		Six-months Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
Net revenues	\$ 180,210	\$ 185,234	\$ 376,240	\$ 383,559
Cost of goods sold (includes share-based compensation expense of \$276 and \$401 for the three and six-months ended March 30, 2007, respectively, and \$560 and \$910 for the three and six-months ended March 31, 2006, respectively)	111,508	115,884	232,222	239,486
Gross profit	68,702	69,350	144,018	144,073
Operating expenses:				
Research and development (includes share-based compensation expense of \$1,622 and \$2,108 for the three and six-months ended March 30, 2007, respectively, and \$1,531 and \$2,949 for the three and six-months ended March 31, 2006, respectively)	31,383	40,557	61,795	82,987
Selling, general and administrative (includes share-based compensation expense of \$2,147 and \$3,562 for the three and six-months ended March 30, 2007, respectively, and \$1,497 and \$2,759 for the three and six-months ended March 31, 2006, respectively)	23,750	25,710	47,778	48,963
Restructuring and special charges			5,473	
Amortization of intangible assets	536	536	1,072	1,072
Total operating expenses	55,669	66,803	116,118	133,022
Operating income	13,033	2,547	27,900	11,051
Interest expense	(4,114)	(4,446)	(7,363)	(8,258)
Other income, net	2,903	2,430	5,058	4,749
Income before income taxes	11,822	531	25,595	7,542
Provision for income taxes	(375)	(395)	1,361	2,329
Net income	\$ 12,197	\$ 926	\$ 24,234	\$ 5,213
Per share information:				
Net income, basic and diluted	\$ 0.08	\$ 0.01	\$ 0.15	\$ 0.03
	160,687	159,084	160,935	158,828

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Number of weighted-average shares used in per
share computations, basic

Number of weighted-average shares used in per
share computations, diluted

161,972

159,629

162,125

159,212

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

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(In thousands, except per share amounts)

	March 30,	As of
	2007	September
	(Unaudited)	29,
		2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 152,447	\$ 136,749
Short-term investments	64,050	28,150
Restricted cash	6,302	6,302
Receivables, net of allowance for doubtful accounts of \$36,824 and \$37,022, respectively	161,192	158,798
Inventories	76,186	81,529
Other current assets	8,004	9,315
Total current assets	468,181	420,843
Property, plant and equipment, less accumulated depreciation and amortization of \$263,939 and \$250,195, respectively	148,921	150,383
Goodwill	492,716	493,389
Intangible assets, less accumulated amortization of \$12,005 and \$10,933, respectively	14,514	15,586
Deferred tax assets	743	251
Other assets	15,740	10,044
Total assets	\$ 1,140,815	\$ 1,090,496
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 89,406	\$ 50,000
Accounts payable	60,698	73,071
Accrued compensation and benefits	29,307	25,297
Other current liabilities	17,760	27,252
Total current liabilities	197,171	175,620
Long-term debt, less current maturities	200,000	179,335
Other long-term liabilities	6,658	6,448
Total liabilities	403,829	361,403
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, no par value: 25,000 shares authorized, no shares issued		

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Common stock, \$0.25 par value: 525,000 shares authorized; 163,931 shares issued and 159,559 shares outstanding at March 30, 2007 and 161,690 shares issued and 161,659 shares outstanding at September 29, 2006	39,890	40,414
Additional paid-in capital	1,366,040	1,351,190
Treasury stock	(30,840)	(173)
Accumulated deficit	(637,505)	(661,739)
Accumulated other comprehensive loss	(599)	(599)
Total stockholders' equity	736,986	729,093
Total liabilities and stockholders' equity	\$ 1,140,815	\$ 1,090,496

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

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

	Six-months Ended	
	March 30, 2007	March 31, 2006
Cash flows from operating activities:		
Net income	\$ 24,234	\$ 5,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	6,071	6,618
Depreciation	18,830	18,429
Charge in lieu of income tax expense	673	
Amortization of intangible assets	1,072	1,072
Amortization of deferred financing costs	1,290	1,370
Contribution of common shares to savings and retirement plans	3,633	4,521
Non-cash restructuring expense	419	
Deferred income taxes	(510)	1,801
Loss (gain) on sales of assets	209	(760)
Property held for sale		(517)
Provision for losses (recoveries) on accounts receivable	(198)	161
Changes in assets and liabilities:		
Receivables	(2,197)	(1,125)
Inventories	5,646	(14,644)
Other assets	114	(2,706)
Accounts payable	(12,373)	2,457
Other liabilities	(5,271)	959
Net cash provided by operating activities	41,642	22,849
Cash flows from investing activities:		
Capital expenditures	(17,577)	(26,060)
Sale of short-term investments	353,533	729,905
Purchase of short-term investments	(389,433)	(676,836)
Net cash provided by (used in) investing activities	(53,477)	27,009
Cash flows from financing activities:		
Proceeds from notes offering	200,000	
Payments on short-term borrowings	(9,929)	
Payments on long-term borrowings	(130,000)	(50,665)
Deferred financing costs	(6,189)	
Repurchase of common stock	(30,667)	
Exercise of stock options	4,318	1,039
Net cash provided by (used in) by financing activities	27,533	(49,626)

Net increase in cash and cash equivalents	15,698	232
Cash and cash equivalents at beginning of period	136,749	116,522
Cash and cash equivalents at end of period	\$ 152,447	\$ 116,754

Supplemental cash flow disclosures:

Taxes paid	\$ 483	\$ 1,356
Interest paid	\$ 8,238	\$ 7,862

Supplemental disclosure of non-cash activities:

Non-cash proceeds received from non-monetary exchange	\$	\$ 760
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

Skyworks Solutions, Inc. (Skyworks or the Company) is an innovator of high performance analog and mixed signal semiconductors enabling mobile connectivity. The Company s power amplifiers, front-end modules and direct conversion radios are at the heart of many of today s leading-edge multimedia handsets. Leveraging core technologies, Skyworks also offers a diverse portfolio of linear products that support automotive, broadband, cellular infrastructure, industrial and medical applications.

Skyworks was formed through the merger (Merger) of the wireless business of Conexant Systems, Inc. (Conexant) and Alpha Industries, Inc. (Alpha) on June 25, 2002, pursuant to an Agreement and Plan of Reorganization, dated as of December 16, 2001, and amended as of April 12, 2002, by and among Alpha, Conexant and Washington Sub, Inc. (Washington), a wholly-owned subsidiary of Conexant to which Conexant spun off its wireless communications business. Pursuant to the Merger, Washington merged with and into Alpha, with Alpha as the surviving corporation. Immediately following the Merger, Alpha purchased Conexant s semiconductor assembly and test facility located in Mexicali, Mexico and certain related operations (the Mexicali Operations). The Washington business and the Mexicali Operations are collectively referred to as Washington/Mexicali. Shortly thereafter, Alpha, which was incorporated in Delaware in 1962, changed its corporate name to Skyworks Solutions, Inc.

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 six-month period ended March 30, 2007 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 29, 2006 as filed with the SEC.

The Company s fiscal year ends on the Friday closest to September 30. Fiscal 2006 consisted of 52 weeks and ended on September 29, 2006, and the second quarters of fiscal 2007 and fiscal 2006 ended on March 30, 2007 and March 31, 2006, respectively. There were 13 and 26 weeks, respectively, in the second quarter and six month period ended March 30, 2007 and March 31, 2006, respectively.

NOTE 2. COMPREHENSIVE INCOME (LOSS)

The Company accounts for comprehensive income (loss) in accordance with the provisions of SFAS No. 130,

Reporting Comprehensive Income (SFAS No. 130). SFAS No. 130 is a financial statement presentation standard that requires the Company to disclose non-owner changes included in equity but not included in net income or loss. Other items of comprehensive income (loss) presented in the financial statements consists of adjustments to the Company s minimum pension liability as follows (in thousands):

	Pension Adjustments	Accumulated Other Comprehensive Loss
Balance as of September 29, 2006	(599)	(599)
Change in period		
Balance as of March 30, 2007	\$ (599)	\$ (599)

Table of Contents**NOTE 3. MARKETABLE SECURITIES**

Marketable securities are categorized as available for sale and are summarized as follows as of March 30, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Short-term available for sale securities:				
Auction rate securities	\$ 64,050	\$	\$	\$ 64,050
Total marketable securities	\$ 64,050	\$	\$	\$ 64,050

Marketable securities are categorized as available for sale and are summarized as follows as of September 29, 2006 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Short-term available for sale securities:				
Auction rate securities	\$ 28,150	\$	\$	\$ 28,150
Total marketable securities	\$ 28,150	\$	\$	\$ 28,150

NOTE 4. INVENTORY

Inventories consist of the following (in thousands):

	March 30, 2007	September 29, 2006
Raw materials	\$ 8,725	\$ 9,476
Work-in-process	46,374	52,097
Finished goods	21,087	19,956
	\$ 76,186	\$ 81,529

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	March 30, 2007	September 29, 2006
Land	\$ 9,423	\$ 9,423
Land and leasehold improvements	4,075	3,990
Buildings	61,459	55,983
Machinery and equipment	315,307	308,618
Construction in progress	22,596	22,564
	412,860	400,578
Accumulated depreciation and amortization	(263,939)	(250,195)
	\$ 148,921	\$ 150,383

Table of Contents**NOTE 6. GOODWILL AND INTANGIBLE ASSETS**

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

	Weighted Average Amortization Period (Years)	As of					
		March 30, 2007			September 29, 2006		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		\$ 492,716	\$	\$ 492,716	\$ 493,389	\$	\$ 493,389
Amortized intangible Developed technology	10	\$ 10,550	\$ (5,962)	\$ 4,588	\$ 10,550	\$ (5,525)	\$ 5,025
Customer relationships	10	12,700	(6,043)	6,657	12,700	(5,408)	7,292
		23,250	(12,005)	11,245	23,250	(10,933)	12,317
Unamortized intangible assets							
Trademarks		3,269		3,269	3,269		3,269
Total intangible assets		\$ 26,519	\$ (12,005)	\$ 14,514	\$ 26,519	\$ (10,933)	\$ 15,586

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

	Three-months Ended		Six-months Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
Amortization expense	\$536	\$ 536	\$1,072	\$1,072

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

	Goodwill	Developed Technology	Customer Relationships	Trademarks	Total
Balance as of September 29, 2006	\$ 493,389	\$ 10,550	\$ 12,700	\$ 3,269	\$ 519,908
Deductions during period	(673)				(673)
Balance as of March 30, 2007	\$ 492,716	\$ 10,550	\$ 12,700	\$ 3,269	\$ 519,235

The deduction to goodwill during the six-month period ended March 30, 2007 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 pre-Merger deferred tax assets that could reduce goodwill in future periods are \$31.3 million as of March 30, 2007.

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