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, 2005*

OR

o **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 01801
(Address of principal executive offices)(Zip Code)

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

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 o 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 o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o 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 February 3, 2006
Common Stock, par value $.25 per share	159,491,621

* For presentation purposes of this Form 10-Q, references made to the December 31, 2005 period relate to the actual first fiscal quarter ended December 30, 2005.

SKYWORKS SOLUTIONS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share amounts)

	Three Months Ended December 31,	
	2005	2004
Net revenues	$ 198,325	$ 220,160
Cost of goods sold (includes share-based compensation expense of $350 and $0, respectively)	123,602	132,141
Gross profit	74,723	88,019
Operating expenses:		
Research and development (includes share-based compensation expense of $1,418 and $0, respectively)	42,430	37,113
Selling, general and administrative (includes share-based compensation expense of $1,263 and $0, respectively)	23,253	27,224
Amortization of intangible assets	536	737
Total operating expenses	66,219	65,074
Operating income	8,504	22,945
Interest expense	(3,812)	(3,533)
Other income, net	2,319	1,121
Income before income taxes	7,011	20,533
Provision for income taxes	2,724	6,616
Net income	$ 4,287	$ 13,917
Per share information:		
Net income, basic and diluted	$ 0.03	$ 0.09
Number of weighted-average shares used in per share computations, basic	158,573	156,440
Number of weighted-average shares used in per share computations, diluted	158,827	158,905

Net income for the first quarter of fiscal 2006 included stock-based compensation expense under Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” (“SFAS 123(R)”) of $3.0 million related to employee stock options, employee stock purchases, and restricted stock grants. Net income including pro forma stock-based compensation expense as disclosed in the notes to the Consolidated Financial Statements for the first quarter of fiscal 2005 was $7.6 million or $0.05 per diluted share. There was no stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) in the first quarter of fiscal 2005 because the Company did not adopt the recognition provisions of SFAS 123. See Note 2 and Note 13 to the Consolidated Financial Statements for additional information.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31, 2005 (Unaudited)	September 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 123,492	$ 116,522
Short-term investments	114,970	113,325
Restricted cash	6,013	6,013
Receivables, net of allowance for doubtful accounts of $5,929 and $5,815, respectively	171,065	171,454
Inventories	79,031	77,400
Other current assets	10,482	11,268
Total current assets	505,053	495,982
Property, plant and equipment, less accumulated depreciation and amortization of $261,226 and $260,731, respectively	148,698	144,208
Property held for sale	6,633	6,630
Goodwill	491,972	493,389
Intangible assets, less accumulated amortization of $9,447 and $8,911, respectively	17,194	17,730
Deferred tax assets	15,219	16,052
Other assets	15,171	13,852
Total assets	$ 1,199,940	$ 1,187,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 50,000	$ 50,000
Accounts payable	72,296	72,276
Accrued compensation and benefits	27,356	19,679
Other current liabilities	12,060	16,280
Total current liabilities	161,712	158,235
Long-term debt, less current maturities	230,000	230,000
Other long-term liabilities	7,115	7,044
Total liabilities	398,827	395,279
Contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value: 25,000 authorized, no shares issued	—	—
Common stock, $0.25 par value: 525,000 shares authorized; 159,290 and 158,625 shares issued and outstanding, respectively	39,822	39,656
Additional paid-in capital	1,331,727	1,327,631
Accumulated deficit	(569,299)	(573,586)
Accumulated other comprehensive loss	(1,137)	(1,137)
Total stockholders' equity	801,113	792,564
Total liabilities and stockholders' equity	$ 1,199,940	$ 1,187,843

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended December 31, 2005	2004
Cash flows from operating activities:		
Net income	$ 4,287	$ 13,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	3,031	—
Depreciation	9,144	9,442
Charge in lieu of income tax expense	1,417	4,179
Amortization	536	737
Amortization of deferred financing costs	399	399
Contribution of common shares to Savings and Retirement Plans	616	1,269
Gain on sale of assets	(764)	—
Deferred income taxes	827	1,964
Provision for losses on accounts receivable	114	564
Changes in assets and liabilities:		
Receivables	649	(13,652)
Inventories	(878)	298
Other assets	(925)	714
Accounts payable	20	1,105
Other liabilities	3,527	(13,810)
Net cash provided by operating activities	22,000	7,126
Cash flows from investing activities:		
Capital expenditures	(13,633)	(10,040)
Sale of short-term investments	383,101	264,950
Purchase of short-term investments	(384,746)	(267,515)
Net cash used in investing activities	(15,278)	(12,605)
Cash flows from financing activities:		
Exercise of stock options	248	4,056
Net cash provided by financing activities	248	4,056
Net increase (decrease) in cash and cash equivalents	6,970	(1,423)
Cash and cash equivalents at beginning of period	116,522	123,505
Cash and cash equivalents at end of period	$ 123,492	$ 122,082
Supplemental cash flow disclosures:		
Taxes paid	$ 999	$ 685
Interest paid	$ 6,174	$ 5,895
Supplemental disclosure of non-cash activities:		
Non-cash proceeds received from a non-monetary exchange	$ 750	$ —

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

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 industry leader in radio solutions and precision analog semiconductors servicing a diversified set of mobile communications customers. The Company’s front-end modules, radio solutions and multimode transceivers are at the heart of many of today’s leading-edge multimedia handsets and wireless networking platforms. Skyworks also offers a portfolio of highly innovative linear products, supporting a wide range of applications including automotive, broadband, consumer, industrial, infrastructure, medical, military, Radio Frequency Identification (“RFID”), satellite and wireless data.

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”). For purposes of this Quarterly Report on Form 10-Q, the Washington business and the Mexicali Operations are collectively referred to as “Washington/Mexicali.” Shortly thereafter, Alpha changed its corporate name to Skyworks Solutions, Inc.

The 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 months ended December 31, 2005 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, 2005 as filed with the SEC.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

All majority owned subsidiaries are included in the Company’s Consolidated Financial Statements and all intercompany balances are eliminated in consolidation.

REVENUE RECOGNITION

Revenues from product sales are recognized upon shipment and transfer of title, in accordance with the shipping terms specified in the arrangement with the customer. Revenue from license fees is recognized when these fees are due and payable, and all other criteria of Staff Accounting Bulletin No. 107 (“SAB 107”) have been met. Revenue recognition is deferred in all instances where the earnings process is incomplete. Certain product sales are made to electronic component distributors under agreements allowing for price protection and/or a right of return on unsold products. A reserve for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating a reserve.

FISCAL YEAR

The Company's fiscal year ends on the Friday closest to September 30. Fiscal year 2005 ended on September 30, 2005, and the first quarters of fiscal 2006 and fiscal 2005 ended on December 30, 2005 and December 31, 2004, respectively. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposited in demand deposits at banks and highly liquid investments with original maturities of 90 days or less at the date of purchase as well as commercial paper with original maturities of 90 days or less at the date of purchase.

SHORT-TERM INVESTMENTS

The Company's short-term investments are classified as available for sale. These investments consist of auction rate securities which have long-term underlying maturities (ranging from 14 to 44 years), however the market is highly liquid and the interest rates reset every 7, 28 or 35 days. The company's intent is not to hold these securities to maturity, but rather to use the interest rate reset feature to sell securities to provide liquidity as needed. The company's practice is to invest in these securities for higher yields compared to cash equivalents. Such short-term investments are carried at amortized cost, which approximates fair value, due to the short period of time before interest rates reset. Gains and losses are included in investment income in the period they are realized.

RECLASSIFICATION

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

RESTRICTED CASH

Restricted cash is primarily used to collateralize the Company's obligation under 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, N.A. providing for a $50 million credit facility ("Facility Agreement'') secured by the purchased accounts receivable. For further information regarding the Facility Agreement, please see Note 7 to the Consolidated Financial Statements.

ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from normal business activities. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make future payments, additional allowances may be required.

INVENTORIES

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market. The Company provides for estimated obsolescence or unmarketable inventory based upon assumptions about future demand and market conditions. The recoverability of inventories is assessed through an on-going review of inventory levels in relation to sales backlog and forecasts, product marketing plans and product life cycles. When the inventory on hand exceeds the foreseeable demand (generally in excess of six months), the value of such inventory that is not expected to be sold at the time of the review is written down. The amount of the write-down is the excess of historical cost over estimated realizable value (generally zero).

Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory. If actual demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Some or all of the inventories that have been written-down may be retained and made available for sale. In the event that actual demand is higher than originally projected, a portion of these inventories may be able to be sold in the future. Inventories that have been written-down and are identified as obsolete are generally scrapped.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method. Significant renewals and betterments are capitalized and equipment taken out of service is written off. Maintenance and repairs, as well as renewals of a minor amount, are expensed as incurred.

Estimated useful lives used for depreciation purposes are 5 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment. Leasehold improvements are depreciated over the lesser of the economic life or the life of the associated lease.

PROPERTY HELD FOR SALE

Property held for sale at December 31, 2005 and September 30, 2005, respectively, relates to land and buildings no longer in use and is recorded at estimated fair value less estimated selling costs. In March 2004, we entered into a contractual arrangement for the sale of the property, contingent upon obtaining specific regulatory approvals. As of December 31, 2005, the prospective buyer had received a portion of these regulatory approvals. If the prospective buyer does not receive all regulatory approvals by June 30, 2006, the prospective buyer has the option of terminating the original contract. Alternatively, the prospective buyer can renegotiate or extend the original contract with the Company’s approval.

VALUATION OF LONG-LIVED ASSETS

Carrying values for long-lived assets and definite lived intangible assets, which excludes goodwill, are reviewed for possible impairment as circumstances warrant in connection with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Impairment reviews are conducted at the judgment of management whenever events or changes in circumstances indicate that the carrying amount of any such asset or asset group may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. The Company’s estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the Company’s business model or changes in its operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value of an asset or asset group, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset or asset group. Fair value is determined using discounted cash flows.

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GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite lives are tested at least annually for impairment in accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets.” The goodwill and other intangible asset impairment test is a two-step process. The first step of the impairment analysis compares the Company’s fair value to its net book value to determine if there is an indicator of impairment. In determining fair value, SFAS No. 142 allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. The Company calculates fair value using the average market price of its common stock over a seven-day period surrounding the annual impairment testing date of July 1 and the number of shares of common stock outstanding on the date of the annual impairment test (July 1). Step two of the analysis compares the implied fair value of goodwill and other intangible assets to its carrying amount in a manner similar to a purchase price allocation for a business combination. If the carrying amount of goodwill and other intangible assets exceeds its implied fair value, an impairment loss is recognized equal to that excess. We test our goodwill and other intangible assets for impairment annually as of the first day of our fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill or other intangible assets may be impaired. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts, may signal that an asset has become impaired.

DEFERRED FINANCING COSTS

Financing costs are capitalized as an asset on the Company’s balance sheet and amortized on a straight-line basis over the life of the financing.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The carrying value of the Company’s net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If these estimates and related assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets resulting in additional income tax expense in the Company’s consolidated statement of operations. Management evaluates the realizability of the deferred tax assets and assesses the adequacy of the valuation allowance quarterly. Likewise, in the event that the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income or decrease the carrying value of goodwill in the period such determination was made.

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 fiscal year ended September 30, 2005, the Company reversed its policy of permanently reinvesting the earnings of its Mexican business. This policy reversal increased the 2005 tax provision by $9.0 million. For the three months ended December 31, 2005, U.S. income tax was provided on current earnings attributable to our operations in Mexico. No provision has been made for U.S. federal, state, or additional foreign income taxes that 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.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and accrued liabilities approximates fair value due to short-term maturities of these assets and liabilities. Fair values of long-term debt and short-term investments are based on quoted market prices at the date of measurement.

FOREIGN CURRENCY ACCOUNTING

The foreign operations of the Company are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency for the Company's foreign operations is the U.S. dollar. Exchange gains and losses resulting from transactions denominated in currencies other than the functional currency are included in the results of operations for the year. Inventories, property, plant and equipment, goodwill and intangible assets, costs of goods sold, and depreciation and amortization are remeasured from the foreign currency into U.S. dollars at historical exchange rates; other accounts are translated at current exchange rates. Gains and losses resulting from the remeasurement of the Company's long-term deferred tax assets are included in the provision for income taxes and reduced tax expense by $0.3 million and $0.4 million for the quarters ended December 31, 2005 and December 31, 2004, respectively. Gains and losses resulting from the remeasurement of all other accounts are included in other income, net. The Company recognized a gain of $0.1 million and $0.3 million related to these remeasurements for the quarters ended December 31, 2005 and December 31, 2004, respectively.

SHARE-BASED COMPENSATION

On October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, employee stock purchases related to the Employee Stock Purchase Plan ("employee stock purchases"), restricted stock and other special equity awards based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued SAB 107 relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of October 1, 2005, the first day of the Company's fiscal year 2006. The Company's Consolidated Financial Statements as of and for the three months ended December 31, 2005 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the three months ended December 31, 2005 was $3.0 million, or $.02 per share, which consisted of stock-based compensation expense related to employee stock options, the employee stock purchase plan, non-vested ("restricted") stock grants with attached service conditions, and restricted stock grants with both a service condition and market condition attached. There was no stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants recognized during the three months ended December 31, 2004 because the Company did not adopt the recognition provisions of under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). For further information, please see Note 13 to the Consolidated Financial Statements.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations, when the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant. Stock-based compensation expense was recognized on restricted stock grants in fiscal year 2005.

Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the first quarter of fiscal 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of September 30, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and compensation expense for the share-based payment awards granted subsequent to September 30, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the Consolidated Statement of Operations for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Upon adoption of SFAS 123(R), the Company elected to retain its method of valuation for share-based awards granted beginning in fiscal 2006 using the Black-Scholes option-pricing model ("Black-Scholes model") which was also previously used for the Company's pro forma information required under SFAS 123. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

EARNINGS PER SHARE

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options and restricted common stock.

Statement of Financial Accounting Standards No. 128, "Earnings per Share," requires that employee equity share options, nonvested shares and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

PENSIONS AND RETIREE MEDICAL 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 20 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 defined benefit pension plans or retiree health benefits to its employees.

Annual pension and retiree medical expense is principally the sum of three components: 1) increase in liability from interest; less 2) expected return on plan assets; and 3) other gains and losses as described below. The expected return on plan assets is calculated by applying an assumed long-term rate of return to the fair value of plan assets. In any given year, actual returns can differ significantly from the expected return.

Differences between the actual and expected return on plan assets are combined with gains or losses resulting from the revaluation of plan liabilities. Plan liabilities are revalued annually, based on updated assumptions and information about the individuals covered by the plan. The combined gain or loss is generally expensed evenly over the remaining years that employees are expected to work.

COMPREHENSIVE LOSS

The Company accounts for comprehensive loss in accordance with the provisions of SFAS No. 130, "Reporting Comprehensive Income." 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. Comprehensive loss presented in the financial statements consists of adjustments to the Company's minimum pension liability.

An analysis of accumulated other comprehensive loss follows (in thousands):

	Pension Adjustments	Accumulated Other Comprehensive Loss
Balance as of September 30, 2005	$ (1,137)	$ (1,137)
Change in period	—	—
Balance as of December 31, 2005	$ (1,137)	$ (1,137)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued 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. The Company adopted SFAS No. 151 on October 1, 2005 and it did not have a material impact on its financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for such exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Company adopted SFAS No. 153 on October 1, 2005 and it did not have a material impact on its financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This interpretation provides additional guidance as to when companies should record the fair value of a liability for a conditional asset retirement obligation when there is uncertainty about the timing and/or method of settlement of the obligation. The Company is currently evaluating the potential impact of this guidance on its financial statements, but does not believe the impact of any change, if necessary, will be material. FASB Interpretation No. 47 is effective for fiscal years ending after December 15, 2005.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements—an amendment of APB Opinion No. 28," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 123(R)-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company is currently evaluating whether it will adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

NOTE 3. MARKETABLE SECURITIES

Marketable securities are categorized as available for sale and are summarized as follows as of December 31, 2005 (in thousands):

Short term available for sale securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Auction rate securities	$ 115.0	$ —	$ —	$ 115.0
Total marketable securities	$ 115.0	$ —	$ —	$ 115.0

Marketable securities are categorized as available for sale and are summarized as follows as of September 30, 2005 (in thousands):

Short term available for sale securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Auction rate securities	$ 113.3	$ —	$ —	$ 113.3
Total marketable securities	$ 113.3	$ —	$ —	$ 113.3

NOTE 4. INVENTORY

Inventories consist of the following (in thousands):

	December 31, 2005	September 30, 2005
Raw materials	$ 8,314	$ 8,080
Work-in-process	51,722	49,329
Finished goods	18,995	19,991
	$ 79,031	$ 77,400

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2005	September 30, 2005
Land	$ 9,423	$ 9,423
Land and leasehold improvements	4,284	4,284
Buildings	60,064	59,586
Machinery and equipment	313,562	317,334
Construction in progress	22,591	14,312
	409,924	404,939
Accumulated depreciation and amortization	(261,226)	(260,731)
	$ 148,698	$ 144,208

NOTE 6. 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):

	Weighted Average Amortization Period (Years)	December 31, 2005 Gross Carrying Amount	December 31, 2005 Accumulated Amortization	December 31, 2005 Net Carrying Amount	September 30, 2005 Gross Carrying Amount	September 30, 2005 Accumulated Amortization	September 30, 2005 Net Carrying Amount
Goodwill		$ 491,972	$ —	$ 491,972	$ 493,389	$ —	$ 493,389
Amortized intangible assets:							
Developed technology	10	10,550	(4,869)	5,681	10,550	(4,651)	5,899
Customer relationships	10	12,700	(4,456)	8,244	12,700	(4,138)	8,562
Other	3	122	(122)	—	122	(122)	—
		23,372	(9,447)	13,925	23,372	(8,911)	14,461
Unamortized intangible assets:							
Trademarks		3,269	—	3,269	3,269	—	3,269
		$ 26,641	$ (9,447)	$ 17,194	$ 26,641	$ (8,911)	$ 17,730

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

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
Amortization expense	$536	$547

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

	Goodwill	Developed Technology	Customer Relationships	Trademarks	Other	Total
Balance as of September 30, 2005	$ 493,389	$ 10,550	$ 12,700	$ 3,269	$ 122	$ 520,030
Deductions during period	(1,417)	—	—	—	—	(1,417)
Balance as of December 31, 2005	$ 491,972	$ 10,550	$ 12,700	$ 3,269	$ 122	$ 518,613

The deduction to goodwill in the three months ended December 31, 2005 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 $30.5 million as of December 31, 2005.

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

	2006	2007	2008	2009	2010
Amortization expense	$2,144	$2,144	$2,144	$2,144	$2,144

NOTE 7. BORROWING ARRANGEMENTS

LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	December 31, 2005	September 30, 2005
Junior notes	$ 230,000	$ 230,000
Less-current maturities	—	—
	$ 230,000	$ 230,000

Junior notes represent the Company's 4.75% convertible subordinated notes due November 2007. These Junior 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 Company may redeem the Junior notes at any time after November 20, 2005. The redemption price of the Junior notes between the period 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. 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 repurchase the Junior 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. The fair value of the Company's long-term debt approximated $226.0 million at December 31, 2005.

Aggregate annual maturities of long-term debt are as follows (in thousands):

Fiscal Year	
2006	—
2007	—
2008	230,000
	$ 230,000

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, N.A. providing for a $50 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. Interest related to the Facility Agreement is at LIBOR plus 0.4%. As of December 31, 2005, Skyworks USA had borrowed $50.0 million under this agreement.

NOTE 8. EMPLOYEE BENEFIT PLAN, PENSIONS AND OTHER RETIREE BENEFITS

The Company maintains a 401(k) plan covering substantially all of its employees. All of the Company's employees who are at least 21 years old are eligible to receive a Company contribution. Discretionary Company contributions are determined by the Board of Directors and may be in the form of cash or the Company's stock. The Company generally contributes a match of up to 4.0% of an employee's annual eligible compensation. For those employees employed by Alpha for five (5) years or more prior to the Merger, the Company contributes an additional match of up to 0.75% of the employee's annual eligible compensation. For the three month period ended December 31, 2005 and December 31, 2004, the Company contributed and recognized expense for approximately 116,000 and 126,000 shares, respectively, of the Company's common stock valued at $0.6 million, and $1.3 million, respectively, to fund the Company's obligation under the 401(k) plan.

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 defined benefit pension plans or retiree health benefits to its employees.

The Company incurred net periodic benefit costs of $22,000 and $28,000 for pension benefits for the periods ended December 31, 2005 and December 31, 2004, respectively. The Company incurred net periodic benefit costs of $29,000 and $30,000 for retiree medical benefits for the periods ended December 31, 2005 and December 31, 2004, respectively.

The Company contributed $0.1 million to the pension benefit plan during the three months ended December 31, 2005. The Company expects to contribute approximately $0.1 million to the benefit pension plan in each of the remaining quarters of fiscal 2006.

NOTE 9. CONTINGENCIES

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

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

From time to time we are involved in legal proceedings in the ordinary course of business. We believe that there is no such ordinary course litigation pending that could have, individually or in the aggregate, a material adverse effect on our business, financial condition, results of operations or cash flows.

NOTE 10. 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.

NOTE 11. 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 have been paid as of December 31, 2005.

Activity and liability balances related to the fiscal 2004 restructuring actions are as follows (in thousands):

	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	(155)	(198)	(353)
Restructuring balance, September 30, 2005	$ —	$ 13	$ 13
Cash payments	—	(7)	(7)
Restructuring balance, December 31, 2005	$ —	$ 6	$ 6

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 quarters of fiscal 2006 and fiscal 2005, payments related to the restructuring reserves assumed from Alpha were $0.1 million and $0.2 million, respectively. As of December 31, 2005 and December 31, 2004, the restructuring reserve balance related to Alpha was $0.9 million and $1.3 million, respectively, and primarily related to estimated future payments on a lease that expires in 2008.

NOTE 12. SEGMENT INFORMATION

The Company follows 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.

The Company operates in one business segment, which designs, develops, manufactures and markets proprietary semiconductor products and system solutions for manufacturers of wireless communication products.

NOTE 13. EMPLOYEE STOCK BENEFIT PLANS

Net income for the first quarter of fiscal 2006 included stock-based compensation expense under SFAS 123(R) of $3.0 million. Stock-based compensation expense included $2.4 million on employee stock options, $0.1 million on non-vested restricted stock with service and market conditions, $0.1 million on non-vested restricted stock with service conditions and $0.4 million on the Company's Employee Stock Purchase Plan. Net income for the first quarter of fiscal 2005 did not include any stock-based compensation expense because the Company did not adopt the recognition provisions of SFAS 123.

Employee Stock Purchase Plan

The Company maintains a domestic and an international employee stock purchase plan. Under these plans, eligible employees may purchase common stock through payroll deductions of up to 10% of compensation. The price per share is the lower of 85% of the market price at the beginning or end of each offering period (generally six months). The plans provide for purchases by employees of up to an aggregate of 2,100,000 shares through December 31, 2012. During the three months ended December 31, 2005 and December 31, 2004, the Company issued no shares under the Purchase Plan. At December 31, 2005, 62,536 shares were available for purchase under the Purchase Plan.

Employee Stock Option Plans

The Company has stock-based compensation plans under which employees and directors may be granted options to purchase common stock.

Options are generally granted with exercise prices at not less than the fair market value on the grant date, generally vest over 4 years and expire 7 to 10 years after the grant date. As of December 31, 2005, a total of 36.5 million shares are authorized for grant under the Company's stock-based compensation plans. The number of common shares reserved for granting of future awards to employees and directors under these plans was 5.0 million at December 31, 2005. In addition, options outstanding include 10.9 million options issued in connection with the Merger to non-employees. The remaining unrecognized compensation expense on stock options at December 31, 2005 was $25.3 million. The weighted average period over which the cost is expected to be recognized is approximately 2.3 years.

As of December 31, 2005, the Company had 10 equity compensation plans under which our equity securities are authorized for issuance to our employees and/or directors:

— the 1986 Long-Term Incentive Plan,

— the 1994 Non-Qualified Stock Option Plan

— the 1996 Long-Term Incentive Plan

— the Directors' 1997 Non-Qualified Stock Option Plan

— the 1999 Employee Long-Term Incentive Plan

— the Directors' 2001 Stock Option Plan

— the Non-Qualified Employee Stock Purchase Plan

— the 2002 Employee Stock Purchase Plan

— the Washington Sub, Inc. 2002 Stock Option Plan and

— the 2005 Long-Term Incentive Plan.

Except for the 1999 Employee Long-Term Incentive Plan, the Washington Sub, Inc. 2002 Stock Option Plan and the Non-Qualified Employee Stock Purchase Plan, each of the foregoing equity compensation plans was approved by our stockholders.

Non-Vested ("Restricted") Stock Awards With Service Conditions

The Company's stock-based compensation plans provide for awards of restricted shares of common stock and other stock-based incentive awards to officers, other employees and certain non-employees. Restricted stock awards are subject to forfeiture if employment terminates during the prescribed retention period (generally within four years of the date of award). The Company granted 160,500 restricted shares with four year graded vesting in fiscal 2005. The remaining unrecognized compensation expense on restricted stock at December 31, 2005 was $0.7 million. The weighted average period over which the cost is expected to be recognized is approximately 3.5 years.

Non-Vested ("Restricted") Stock Awards With Market Conditions and Service Conditions

The Company granted 493,125 shares of restricted common stock with market conditions and service conditions during the first quarter of fiscal 2006. The market condition allows for accelerated vesting of these instruments if the Company's stock performance exceeds the 60th percentile of its selected peer group at the end of year 1 (50% vested) and year 2 (50% vested). If the restricted stock recipient meets the service condition but not the market condition in years 1 or 2 then the restricted stock vests 50% at the end of year 3 and 50% at the end of year 4. The Company calculated a derived service period of approximately 2.5 years using a Monte-Carlo simulation to simulate a range of possible future stock prices for the Company and the members of the Company's selected peer group. The remaining unrecognized compensation expense on restricted stock at December 31, 2005 was $2.2 million. The weighted average period over which the cost is expected to be recognized is approximately 2.5 years. There were no restricted common stock grants during the first quarter of fiscal 2005.

Stock-Based Compensation Plans for Directors

The Company has three stock-based compensation plans for non-employee directors — the 1994 Non-Qualified Stock Option Plan, the 1997 Non-Qualified Stock Option Plan and the Directors' 2001 Stock Option Plan. Under the three plans, a total of 1.2 million shares have been authorized for option grants. As of December 31, 2005, under the three plans, a total of 0.4 million shares are available for new grants. The three plans have substantially similar terms and conditions and are structured to provide options to non-employee directors as follows: a new director receives a total of 45,000 options upon becoming a member of the Board; and continuing directors receive 15,000 options after each Annual Meeting of Shareholders. The maximum contractual term of the Director stock options is 10 years.

Under these plans, the option price is the fair market value at the time the option is granted. Beginning in fiscal 2001, all options granted became exercisable 25% per year beginning one year from the date of grant. Options granted prior to fiscal 2001 became exercisable at a rate of 20% per year beginning one year from the date of grant. During the quarters ended December 31, 2005, and December 31, 2004, there were no options granted under these plans. At December 31, 2005, a total of 772,500 options at a weighted average exercise price of $10.53 are outstanding under these three plans, and 416,250 shares were exercisable at a weighted average exercise price of $12.94. The remaining unrecognized compensation expense on stock options at December 31, 2005 was $1.1 million. The weighted average period over which the cost is expected to be recognized is approximately 2.1 years. Non-employee directors of the Company are also eligible to receive option grants under the Company's 1996 Long-Term Incentive Plan. The above-mentioned activity for the stock-based compensation plans for directors is included in the option tables below.

Distribution and Dilutive Effect of Options

The following table illustrates the grant dilution and exercise dilution:

(In thousands)	**Three Months Ended December 31,**	
	2005	**2004**
Shares of common stock outstanding	159,290	156,806
Granted	2,978	3,746
Canceled/forfeited	(921)	(981)
Expired	—	—
Net options granted	2,057	2,765
Grant dilution (1)	1.3%	1.8%
Exercised	56	657
Exercise dilution (2)	0.0%	0.4%

(1) The percentage for grant dilution is computed based on net options granted as a percentage of shares of common stock outstanding.

(2) The percentage for exercise dilution is computed based on options exercised as a percentage of shares of common stock outstanding.

Basic and diluted shares outstanding for the three months ended December 31, 2005 were 158.6 million shares and 158.8 million shares, respectively. During the three months ended December 31, 2005, the dilutive effect of in-the-money employee stock options was approximately 0.2 million shares or 0.2% of the basic shares outstanding based on the Company's average share price of $5.44.

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General Option Information

A summary of stock option transactions follows (shares in thousands):

	Options Available for Grant	Options Outstanding: Shares	Options Outstanding: Weighted average exercise price of shares under plan
Balance outstanding at September 30, 2004	5,710	31,763	$ 13.63
Granted (1)	(4,908)	4,668	8.47
Exercised	—	(935)	5.57
Cancelled/forfeited (2)	2,113	(3,918)	13.66
Expired	—	—	—
Additional shares reserved	5,500	—	—
Balance outstanding at September 30, 2005	8,415	31,578	$ 12.99
Granted (1)	(3,718)	2,978	5.01
Exercised	—	(56)	4.44
Cancelled/forfeited (2)	361	(921)	13.37
Expired	—	—	—
Balance outstanding at December 31, 2005	5,058	33,579	$ 12.28

(1) Granted under Options available for grant include the effect of restricted stock grants for the year ended September 30, 2005 and for the quarter ended December 31, 2005 of 160,500 shares and 493,125 shares, respectively. These restricted stock grants are equivalent to the issue of 240,750 and 739,688 options, respectively.

(2) Cancelled shown under Options available for grant do not include any cancellations under terminated plans. For the year ended September 30, 2005 and for the quarter ended December 31, 2005, these cancellations are 1,805,000 and 560,000, respectively.

The Company has a policy of issuing stock out of its registered but unissued stock pool through its transfer agent to satisfy stock option exercises.

The following table summarizes information concerning currently outstanding and exercisable options as of December 31, 2005 (shares and Aggregate Intrinsic Value in thousands):

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Aggregate Intrinsic Value	Options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Aggregate Intrinsic Value
$0.45 - $4.99	6,657	7.5	$ 4.72	$ 2,463	2,831	6.2	$ 4.49	$ 1,699
$5.01 - $8.93	5,868	8.5	$ 7.89	—	1,717	7.8	$ 7.83	—
$8.96 - $9.60	7,338	8.0	$ 9.32	—	6,964	8.0	$ 9.33	—
$9.67 - $16.47	5,060	4.2	$ 14.14	—	4,892	4.1	$ 14.24	—
$16.48 - $21.31	7,038	4.2	$ 19.70	—	6,997	4.2	$ 19.70	—
$21.56 - $153.73	1,617	4.0	$ 34.71	—	1,596	4.0	$ 34.85	—
$170.44	1	2.2	$ 170.44	—	1	2.2	$ 170.44	—
	33,579	6.4	$ 12.28	$ 2,463	24,998	5.7	$ 14.17	$ 1,699

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the company's closing stock price of $5.09 as of December 31, 2005, which would have been received by the option holders had all option holders exercised their options as of that date. The aggregate intrinsic value of options exercised for the first quarter of fiscal 2006 and fiscal 2005 was $36,346 and $2,235,765, respectively. The fair value of stock options vested at December 31, 2005 and December 31, 2004 was $67.8 million and $16.8 million, respectively. The total number of in-the-money options exercisable as of December 31, 2005 was 2.8 million. As of September 30, 2005, 24.1 million outstanding options were exercisable, and the weighted average exercise price was $14.68.

General Nonvested (“Restricted”) Shares Information

A summary of the restricted share transactions follows (shares in thousands):

	Shares	Weighted average Grant-date fair value
Balance Outstanding at September 30, 2004	—	$ —
Granted	161	5.20
Vested	(—)	—
Forfeited	(—)	—
Balance Outstanding at September 30, 2005	161	$ 5.20
Granted	493	4.99
Vested	(—)	—
Forfeited	(—)	—
Balance Outstanding at December 31, 2005	654	$ 5.02

No restricted shares are vested at December 31, 2005.

Valuation and Expense Information under SFAS 123(R)

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants under SFAS123(R) for the three months ended December 31, 2005 which was allocated as follows:

(In thousands)	Three Months Ended December 31, 2005
Cost of sales	350
Research and development	1,418
Selling, general and administrative	1,263
Stock-based compensation expense included in operating expenses	$ 3,031

The Company capitalized $0.4 million of stock-based compensation in inventory for the quarter ended December 31, 2005. The Company did not recognize any tax benefit on the stock-based compensation recorded in the first fiscal quarter of 2006 because we have established a valuation allowance against our net deferred tax assets. The Company also did not recognize in income any stock-based compensation as none had been previously capitalized in inventory.

The table below reflects net income per share, basic and diluted, for the three months ended December 31, 2005 compared with the pro forma information for the three months ended December 31, 2004.

(In thousands, except per share amounts)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
Net income–as reported for prior periods (1)	N/A	$ 13,917
Stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants (2)	(3,031)	(6,300)
Net income, including the effect of stock-based compensation expense (3)	$ 4,287	$ 7,617
Per share information, basic and diluted:		
Net income, as reported for the prior period (1)	N/A	$ 0.09
Net income, including the effect of stock-based compensation expense (3)	$ 0.03	$ 0.05

(1) Net income and net income per share prior to fiscal 2006 did not include stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants under SFAS 123 because we did not adopt the recognition provisions of SFAS 123.

(2) Stock-based compensation expense prior to fiscal 2006 is calculated based on the pro forma application of SFAS 123 as previously disclosed in the notes to the Consolidated Financial Statements.

(3) Net income and net income per share prior to fiscal 2006 represents pro forma information based on SFAS 123 as previously disclosed in the notes to the Consolidated Financial Statements.

The weighted-average estimated value of employee stock options granted during the three months ended December 31, 2005 was $3.06 per share using the Black Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended December 31, 2005
Expected volatility	66.02%
Risk free interest rate	4.45%
Dividend yield	0.00
Expected option life (7 year contractual life options)	4.42
Expected option life (10 year contractual life options)	5.84

The company used an arithmetic average of historical volatility and implied volatility to calculate its expected volatility at December 31, 2005. Historical volatility was determined by calculating the mean reversion of the daily adjusted closing stock price over the past 3.37 years of the Company's existence (post-Merger). The implied volatility was calculated by analyzing the 52 week minimum and maximum prices of publicly traded call options on the Company's common stock. The Company concluded that an arithmetic average of these two calculations provided for the most reasonable estimate of expected volatility under the guidance of SFAS 123(R).

The risk-free interest rate assumption is based upon observed treasury bill interest rates (risk free) appropriate for the term of the Company's employee stock options.

The expected life of employee stock options represents a calculation based upon the historical exercise experience for the Company over the past 3.37 years (post-Merger). The Company determined that it had two populations with unique exercise behavior. These populations included stock options with a contractual life of 7 years and 10 years, respectively.

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the first quarter of fiscal 2006 is actually based on awards ultimately expected to vest, it has been reduced for annualized estimated forfeitures of 8.59%. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Pro Forma Information Under SFAS 123 for Periods Prior to Fiscal 2006

The weighted-average estimated value of employee stock options granted during the three months ended December 31, 2004 was $4.39 per share using the Black Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended December 31, 2004
Expected volatility	75.00%
Risk free interest rate	3.60%
Dividend yield	0.00
Expected option life (years)	4.0

For purposes of pro forma disclosures under SFAS 123, the estimated fair value of the options is assumed to be amortized to expense over the options' vesting period.

NOTE 14. EARNINGS PER SHARE

(In thousands, except per share amounts)	Three Months Ended December 31, 2005	2004
Net income	$ 4,287	$ 13,917
Weighted average shares outstanding basic	158,573	156,440
Effect of dilutive stock options and restricted stock	254	2,465
Weighted average shares outstanding diluted	158,827	158,905
Net income per share — basic	$ 0.03	$ 0.09
Effect of dilutive stock options	—	—
Net income per share — diluted	$ 0.03	$ 0.09

Debt securities convertible into approximately 25.4 million shares and stock options exercisable into approximately 26.1 million shares were outstanding but not included in the computation of earnings per share for the three months ended December 31, 2005 as their effect would have been anti-dilutive. If the Company had earned $19.6 million in net income for the three months ended December 31, 2005, the debt securities would have been dilutive to earnings per share. 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.

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," "seek," "intends," "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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2005 AND 2004

The following table sets forth the results of our operations expressed as a percentage of net revenues for the three months ended December 31, 2005 and 2004:

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
Net revenues	100.0%	100.0%
Cost of goods sold	62.3	60.0
Gross margin	37.7	40.0
Operating expenses:		
Research and development	21.4	16.9
Selling, general and administrative	11.7	12.4
Amortization	0.3	0.3
Total operating expenses	33.4	29.6
Operating income	4.3	10.4
Interest expense	(1.9)	(1.6)
Other income, net	1.2	0.5
Income before income taxes	3.6	9.3
Provision for income taxes	1.4	3.0
Net income	2.2%	6.3%

GENERAL

During the three months ended December 31, 2005, certain key factors contributed to our overall results of operations and cash flows from operations. More specifically, we:

§ Generated $22.0 million in cash flows from operations;

§ Increased our cash, cash equivalent and short term investment balances by $8.6 million to $244.5 million while still investing $13.6 million in capital equipment;

§ Increased revenues in the Radio Frequency ("RF") Solutions and Linear Products areas to $180.5 million, a 3.6% increase from revenues of $174.3 million in the first fiscal quarter of 2005, offset by a decrease in revenues from the cellular baseband product area of $23.5 million or 57.0% from the first quarter of fiscal 2005 and a decrease in revenues from test and assembly services of approximately $4.6 million from the first quarter of fiscal 2005 due to the completion of the test and assembly services arrangement with Conexant in the third quarter of fiscal 2005;

§ Experienced a decrease of 230 basis points in our gross margin as a percentage of revenue, from 40.0% in the first fiscal quarter of 2005 to 37.7% in the first fiscal quarter of 2006 principally as a result of supply constraints caused by an industry-wide shortage of printed circuit board capacity, increased off-shore assembly and test expenses at higher costs and lower than planned production yields due to the ramp of several new products; and

§ Recorded $3.0 million in share-based compensation expense upon the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"). Approximately $0.3 million, $1.4 million and $1.3 million were included in cost of goods sold, research and development expense and selling, general and administrative expense, respectively.

NET REVENUES

	Three Months Ended December 31,		
(dollars in thousands)	2005	Change	2004
Net revenues	$198,325	(9.9)%	$220,160

We market and sell our semiconductor products and system solutions to leading Original Equipment Manufacturers ("OEMs") of communication electronics products, third-party original design manufacturers ("ODMs") and contract manufacturers, and indirectly through electronic components distributors.

Net revenues decreased 9.9% for the first fiscal quarter of 2006 as compared to the first fiscal quarter of 2005. Revenues from our RF Solutions and Linear Product areas increased 3.6% ($6.2 million) from $174.3 million to $180.5 million in the first fiscal quarter of 2006 as compared to the corresponding period in fiscal 2005 offset by a $23.5 million decline in revenues in our cellular baseband product area, reflecting a shift from tier-three suppliers to leading cellular handset OEMs. Assembly and test service revenues also decreased by approximately $4.6 million between the first quarter of fiscal 2005 and the first quarter of fiscal 2006 due to the completion of the test and assembly services agreement with Conexant. The number of units sold in our cellular baseband product area decreased 53.7% while units sold in our RF Solutions and Linear Product areas increased 23.1% in the first quarter of fiscal year 2006 as compared to the same period in fiscal 2005. Overall average selling prices declined by approximately 26.1% in the first quarter of fiscal 2006 as compared to the corresponding period in the prior year. Net revenues from our top three customers increased to 53% in the first quarter of fiscal 2006 from 36% in the first quarter of fiscal 2005.

GROSS PROFIT

	Three Months Ended December 31,		
(dollars in thousands)	2005	Change	2004
Gross profit	$74,723	(15.1)%	$88,019
% of net revenues	37.7%		40.0%

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 declined both in aggregate dollars and as a percentage of revenue for the three months ended December 31, 2005 when compared to the corresponding period in the previous fiscal year. The decrease in gross profit in aggregate dollars was principally due to the aforementioned cellular baseband product area revenue decline of $23.5 million and the associated contribution margin decline of approximately $11 million. The decline in gross profit as a percentage of net revenues was primarily the result of higher production costs of approximately $1 million on a lower overall revenue base. Gross profit as a percentage of revenue decreased due to an industry-wide shortage of printed circuit board capacity, which constrained internal production and absorption, combined with increased off-shore assembly and test expenses of approximately $2 million. We ramped several new products in the first fiscal quarter of 2006, which also contributed to lower production yields of approximately $1 million than achieved in the first fiscal quarter of 2005. Royalty expenses decreased by approximately $2 million for the three months ended December 31, 2005 as compared to the corresponding period in the prior year.

RESEARCH AND DEVELOPMENT

	Three Months Ended December 31,		
(dollars in thousands)	2005	Change	2004
Research and development	$ 42,430	14.3%	$ 37,113
% of net revenues	21.4%		16.9%

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 increase in research and development expenses for the three months ended December 31, 2005 when compared to the corresponding period in the previous fiscal year is primarily attributable to increased labor and benefit costs incurred to support our next generation multimode radios and precision analog semiconductors. We anticipate acceleration in the ramping of our Helios EDGE radio, CDMA solutions and next generation front-end modules at several of our top customers during the second half of fiscal year 2006. The increased research and development cost primarily supports these ramping products. We also incurred approximately $1.4 million in research and development related share-based compensation expense in the first quarter of fiscal 2006 related to our adoption of SFAS 123(R).

SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended December 31,		
(dollars in thousands)	2005	Change	2004
Selling, general and administrative	$ 23,253	(14.6)%	$ 27,224
% of net revenues	11.7%		12.4%

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.

Selling, general and administrative expenses decreased for the three months ended December 31, 2005 when compared to the corresponding period in the previous fiscal year primarily as the result of significantly lower legal expenses which we incurred in the first quarter of fiscal year 2005 related to protecting our intellectual property portfolio. In addition, lower bad debt expenses and the recognition of a gain on sale of fixed assets in the first fiscal quarter of 2006 reduced overall selling, general and administrative costs as compared to the corresponding period in the first fiscal quarter of 2005.

AMORTIZATION OF INTANGIBLE ASSETS

(dollars in thousands)	Three Months Ended December 31, 2005	Change	2004
Amortization	$ 536	(27.3)%	$ 737
% of net revenues	0.3%		0.3%

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. The decrease in amortization expense between the first fiscal quarter of 2006 and the corresponding period in fiscal 2005 is due to the recognition of amortization expense on a warrant of $0.2 million in fiscal 2005. The warrant expired without being exercised on January 20, 2005.

INTEREST EXPENSE

(dollars in thousands)	Three Months Ended December 31, 2005	Change	2004
Interest expense	$ 3,812	7.9%	$ 3,533
% of net revenues	1.9%		1.6%

Interest expense is comprised principally of payments on our $50.0 million credit facility ("Facility Agreement") and Junior notes payable.

The increase in interest expense for the three months ended December 31, 2005 when compared to the corresponding period in fiscal 2005 is primarily due to a higher interest rate paid on the Facility Agreement.

See Note 7 of Notes to Interim Consolidated Financial Statements for information related to our borrowing arrangements.

OTHER INCOME, NET

(dollars in thousands)	Three Months Ended December 31, 2005	Change	2004
Other income, net	$ 2,319	106.9%	$ 1,121
% of net revenues	1.2%		0.5%

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, 2005 when compared to the corresponding period in the previous fiscal year is primarily related to an increase in interest income on invested cash balances of approximately $1.2 million as a result of increased interest rates earned on our auction rate securities and to a lesser extent higher levels of invested cash and short-term investments.

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PROVISION FOR INCOME TAXES

(dollars in thousands)	Three Months Ended December 31, 2005	Change	2004
Provision for income taxes	$ 2,724	(58.8)%	$ 6,616
% of net revenues	1.4%		3.0%

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, 2005, 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, 2005 and 2004, consists of approximately $1.1 million and $2.4 million of foreign income taxes incurred by foreign operations, respectively. The provision for income taxes for the three months ended December 31, 2004 included $1.6 million of additional foreign taxes 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. Gains and losses resulting from the remeasurement of the Company's foreign-denominated long-term deferred tax assets are included in the provision for income taxes and reduced tax expense by $0.3 million and $0.2 million for the quarter ended December 31, 2005 and 2004, respectively. In addition, the provision for income taxes for the three months ended December 31, 2005 and 2004 consists of approximately $1.4 million and $4.2 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 distributed approximately $17 million of accumulated 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. For the three months ended December 31, 2005, U.S. income tax was provided on current 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

(dollars in thousands)	Three Months Ended December 31, 2005	2004
Cash and cash equivalents at beginning of period	$ 116,522	$ 123,505
Net cash provided by operating activities	22,000	7,126
Net cash used in investing activities	(15,278)	(12,605)
Net cash provided by financing activities	248	4,056
Cash and cash equivalents at end of period	$ 123,492	$ 122,082

During the three months ended December 31, 2005, we increased our cash and cash equivalent balances by $7.0 million from $116.5 million as of September 30, 2005. The number of days sales outstanding for the three months ended December 31, 2005 increased to 79 from 71 for the corresponding period in the previous fiscal year. Annualized inventory turns for the three months ended December 31, 2005 were 6.3 compared to 6.7 for the corresponding period in the previous fiscal year.

During the three months ended December 31, 2005, we generated $22.0 million in cash from operating activities as we experienced a decrease in receivable balances of $0.6 million and an increase in other liability balances of $3.5 million offset somewhat by an increase in inventory balances of $0.9 million. Non-cash charges (including depreciation, charge in lieu of income tax expense, amortization, contribution of common shares to savings and retirement plans and share-based compensation expense) totaled $15.1 million.

Cash used in investing activities for the three months ended December 31, 2005, consisted of net purchases of $1.6 million in auction rate securities and capital expenditures of $13.6 million primarily related to the equipment utilized to design 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, 2005 represents cash provided by stock option exercises of $0.2 million.

Cash provided by operating activities was $7.1 million for the three months ended December 31, 2004, reflecting net income of $13.9 million and non-cash charges (including depreciation, charge in lieu of income tax expense, amortization and contribution of common shares to savings and retirement plans) of $16.0 million. We also experienced an increase in accounts payable balances of $1.1 million offset by an increase in receivables of $13.7 million and a decrease in other liabilities of $13.8 million.

Cash used in investing activities for the three months ended December 31, 2004 consisted of capital expenditures of $10.0 million and net investments in auction rate securities of $2.6 million.

Cash provided by financing activities for the three months ended December 31, 2004, represents cash provided by stock option exercises of $4.1 million.

Based on our results of operations for the three months ended December 31, 2005 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 would 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. 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.

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 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, and 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 emerged from this period of economic weakness in fiscal 2004, 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 and fiscal 2005, 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, natural disasters, acts of terrorism, and civil and military unrest contributes 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. Furthermore, some of our customers have divisions that internally develop or manufacture products similar to ours, and may compete with us. 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 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 could have a material adverse affect 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 pay warranty claims, replace products, or pay costs associated with the recall of a customer's products containing our parts.

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, health advisories or risks, 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 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. 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. 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. To the extent we enter into additional sole supplier arrangements for any of our raw materials or components, the risks associated with our supply arrangements would be exacerbated.

Changes in the accounting treatment of stock-based compensation have adversely affected our results of operations.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "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 equity-based award expensing has required us to value our employee stock option grants and other equity-based awards pursuant to an option valuation formula and amortize that value against our earnings over the vesting period in effect for those options. Historically we accounted for stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and had adopted the disclosure-only alternative of SFAS No. 123, "Accounting for Stock-Based Compensation." In April 2005, the SEC issued a rule amending the compliance date which allows companies to implement SFAS 123(R) at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. As a result, we implemented SFAS 123(R) in the reporting period starting October 1, 2005. This change in accounting treatment has materially affected our reported results of operations as the stock-based compensation expense has been and will continue to be charged directly against our reported earnings but will have no impact on cash flows from operations. We anticipate that our stock-based compensation expense will approximate $29.8 million in fiscal 2006 through 2011. This expense projection is calculated as of December 31, 2005 and does not taken into account any future equity awards that we might issue nor does it account for future actual stock-based award forfeitures. We will be required to adjust future stock-based compensation expense for actual future stock option forfeitures.

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

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, 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 and modules 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 recently completed 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 our three largest customers, including sales to their manufacturing subcontractors, represented approximately 52.8% of our net revenue for the first quarter of fiscal 2006. We expect that our largest customers will continue to account for a substantial portion of our net revenue in fiscal 2006 and for the foreseeable future.

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, 2005, we had total indebtedness of approximately $280 million, which represented approximately 27% of our total capitalization.

As long as our 4.75 percent convertible subordinated notes due November 2007 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.

We intend to fulfill our debt service obligations from cash expected to be generated by our operations, 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 us.

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.

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 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, and
- 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. Although the wireless communications industry has recovered somewhat from an industry-wide recession, such recovery may not continue. In addition, we cannot predict what effects negative events, such as war or other international conflicts, 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, a continued 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.

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.

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
- 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. Even if we receive a patent, the patent claims may not be broad enough to adequately protect our technology. Furthermore, even if we receive patent protection in the United States, we may not seek, or may not be granted, patent protection in foreign countries. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited for certain technologies and in certain foreign countries.

There is a growing industry trend to include or adapt “open source” software that is generally made available to the public by its developers, authors or third parties. Often such software includes license provisions, requiring public disclosure of any derivative works containing open source code. There is little legal precedent in the area of open source software or its effects on copyright law or the protection of proprietary works. We take steps to avoid the use of open source works in our proprietary software, and are taking steps to limit our suppliers from doing so. However, in the event a copyright holder were to demonstrate in court that we have not complied with a software license, we may be required to cease production or distribution of that work or to publicly disclose the source code for our proprietary software, which may negatively affect our operations or stock price.

We attempt to control access to and distribution of our proprietary information through operational, technological and legal safeguards. Despite our efforts, parties, including former or current employees, may attempt to copy, disclose or obtain access to our information without our authorization. Furthermore, attempts by computer hackers to gain unauthorized access to our systems or information could result in our proprietary information being compromised or interrupt our operations. While we attempt to prevent such unauthorized access we may be unable to anticipate the methods used, or be unable to prevent the release of our proprietary information.

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% 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% 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% 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% or more of our shares,
- a fair price provision, and
- a requirement that the affirmative vote of at least 90% 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.

Increasingly stringent environmental laws, rules and regulations may require us to redesign our existing products and processes, and could adversely affect our ability to cost-effectively produce our products.

The semiconductor and electronics industries have been subject to increasing environmental regulations. A number of domestic and foreign jurisdictions seek to restrict the use of various substances, a number of which have been used in our products or processes. For example, the European Union Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive requires that certain substances be removed from all electronics components by July 1, 2006. Removing such substances requires the expenditure of additional research and development funds to seek alternative substances, as well as increased testing by third parties to ensure the quality of our products and compliance with the RoHS Directive. Alternative substances may not be readily available or commercially feasible, may only be available from a single source, or may be significantly more expensive than their restricted counterparts. While we have implemented a compliance program to ensure our product offering meets these regulations, if we are unable to complete the transition in a timely manner, or ensure consistent quality and product yields with redesigned processes, our operations may be adversely affected.

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 and in foreign countries. 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. Furthermore, our customers increasingly require warranties or indemnity relating to compliance with environmental regulations. 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, volume of shares traded, 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. Our company has been, and in the future may be, the subject of commentary by financial news media. Such commentary may contribute to volatility in our stock price. 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.

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, 2005.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.*

Skyworks’ management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of Skyworks’ disclosure controls and procedures as of December 31, 2005. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of Skyworks’ disclosure controls and procedures as of December 31, 2005, Skyworks’ chief executive officer and chief financial officer concluded that, as of such date, Skyworks’ disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Changes in internal controls.*

No change in Skyworks' internal control over financial reporting occurred during the fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, Skyworks' internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

During the quarter ended December 30, 2005, the Company issued an aggregate of 493,125 shares of restricted common stock to certain officers and key employees and also issued options to purchase an aggregate of 770,000 shares of common stock to its named executive officers. These restricted stock and option grants were made pursuant to the Company's 2005 Long-Term Incentive Plan and the standard forms of award agreements adopted by the Company in connection with the plan. No consideration was received by the Company in connection with the issuance of the restricted common stock. The options described in this paragraph are exercisable for $4.99 per share of common stock underlying such options, and the Company will receive this amount per share if and when the options are exercised.

The foregoing issuances of restricted stock and stock options were completed pursuant to Section 4(2) of the Securities Act. The issuances did not involve any public offering and were sold to a limited group of persons. Each recipient of the foregoing grants either received adequate information about the Company or had access, through employment or other relationships, to such information, and the Company determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in the Company. The recipients of restricted common stock represented, and the recipients of common stock upon the exercise of their options will represent, their intention to acquire our securities for investment only and not with a view to or for the sale in connection with any distribution thereof and appropriate legends were affixed to the shares of restricted common stock, and will be affixed to shares of common stock received upon the exercise of the stock options described above.

ITEM 6. EXHIBITS

(a) Exhibits

Number	Description
31.1*	Certification of the Company's Chief Executive Officer pursuant to Securities and Exchange Act Rules 13a- 14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* 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 8, 2006

SKYWORKS SOLUTIONS, INC.
Registrant

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

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EXHIBIT 31.1

CERTIFICATION OF THE CEO PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David J. Aldrich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyworks Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 8, 2006
/s/ David J. Aldrich
David J. Aldrich
Chief Executive Officer
President
Director

EXHIBIT 31.2

CERTIFICATION OF THE CFO PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Allan M. Kline, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyworks Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report and
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 8, 2006
/s/ Allan M. Kline
Allan M. Kline
Chief Financial Officer
Vice President

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Skyworks Solutions, Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David J. Aldrich, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ David J. Aldrich
David J. Aldrich
Chief Executive Officer
President
Director
February 8, 2006

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Skyworks Solutions, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allan M. Kline, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Allan M. Kline
Allan M. Kline
Chief Financial Officer
Vice President
February 8, 2006