

ROYAL BANK OF SCOTLAND PLC

Form 424B5

December 05, 2011

The information in this preliminary pricing supplement is not complete and may be changed. A registration statement relating to the securities has been filed with the Securities and Exchange Commission. This preliminary pricing supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale of securities is not permitted.

Subject to Completion

**Preliminary Pricing Supplement dated December 5, 2011**

Preliminary Pricing Supplement No. 122  
to Product Prospectus Supplement No.  
SHIELDS-1 dated April 5, 2011  
and Prospectus dated May 18, 2010

Filed pursuant to Rule 424(b)(5)  
Registration Statement Nos. 333-162219 and  
333-162219-01  
December 5, 2011

The Royal Bank of Scotland plc (Issuer)  
The Royal Bank of Scotland Group plc (Guarantor)

\$

RBS **Market-Linked** Notes

Linked to the S&P 500® Index

100% repayment of principal at maturity, subject to the credit risk of RBS and RBSG

100% upside participation at maturity in any increase in the level of the S&P 500® Index. \$1,000 principal amount per RBS Market-Linked Note

100% repayment of principal at maturity, subject to the creditworthiness of The Royal Bank of Scotland plc, as the issuer, and The Royal Bank of Scotland Group plc, as the guarantor of the issuer's obligations under the securities.

Expected dates\*:

Pricing Date: December 28, 2011  
Settlement Date: December 30, 2011  
Maturity Date: July 3, 2017

5.5-year term (approximately).

CUSIP / ISIN No.: 78009PCG4 / US78009PCG46

No periodic interest payments.

No listing on any securities exchange.

\*Expected dates. The relevant dates referenced in this document are based on current expectation only and are subject to change. In the event that we make any change to the expected pricing date or settlement date, the expected maturity date will also be changed. The stated term of the securities will remain the same. See also "Clearance and Settlement" on page PS-13 of this pricing supplement.

The RBS Market-Linked Notes Linked to the S&P 500® Index due July 3, 2017 (together with the related guarantees, the "securities") involve risks not associated with an investment in conventional debt securities. See "Risk Factors" beginning on page PS-6 of this pricing supplement and beginning on page S-14 of Product Prospectus Supplement No. SHIELDS-1 (the "product supplement").

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other government agency.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved the securities, or determined if this pricing supplement, the product supplement or the prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

	Per security	Total
Original Offering Price (1)	\$ 1,000.00	\$
Underwriting discount	\$ 42.00	\$
Proceeds, before expenses, to The Royal Bank of Scotland plc	\$ 958.00	\$

(1) The value you might expect to receive if you were able to resell the securities on the pricing date is less than the Original Offering Price. This is because the Original Offering Price includes the underwriting discount set forth above and also reflects our cost of hedging our obligations under the securities. For additional information, see "Risk Factors—The value of your securities on the pricing date is less than the Original Offering Price due to the underwriting discount and our cost of hedging, both of which can be expected to be reflected in secondary market prices" on page S-18 of the product supplement. The Original Offering Price also does not include fees that you may be charged if you buy the securities through your registered investment advisers for managed fee-based accounts.

RBS Securities Inc.  
December , 2011

**THE ROYAL BANK OF SCOTLAND PLC**  
**RBS Market-Linked Notes**  
**Linked to the S&P 500® Index due July 3, 2017**

**Summary**

The RBS Market-Linked Notes Linked to the S&P 500® Index due July 3, 2017 (together with the related guarantees, each, a “security” and collectively, the “securities”) are senior unsecured obligations issued by us, The Royal Bank of Scotland plc, and are fully and unconditionally guaranteed by our parent company, The Royal Bank of Scotland Group plc. The securities will rank equally with all of our other senior unsecured indebtedness from time to time outstanding, and any payments due on the securities, including any repayment of principal, will be subject to the ability of RBS, as the issuer of the securities, and RBSG, as the guarantor of the issuer's obligations under the securities, to pay their respective obligations as they become due. The securities provide investors with 100% participation in an increase, if any, in the level of the S&P 500® Index (the “Underlying Equity Index”) from the Initial Value to the Final Value. Investors will not receive any interest payments.

Capitalized terms used but not defined in this pricing supplement have the meanings set forth in the product supplement.

**Key Terms**

Issuer:	The Royal Bank of Scotland plc (“RBS”)
Guarantor:	The Royal Bank of Scotland Group plc (“RBSG”)
Original Offering Price:	\$1,000 per security
Term:	5.5 years (approximately)
Underlying Equity Index:	The S&P 500® Index (Bloomberg ticker: SPX)
Participation Rate:	100%. This represents participation on a one-to-one basis in any increase in the level of the Underlying Equity Index from the Initial Value to the Final Value.
Initial Value:	The closing level of the Underlying Equity Index on the pricing date. The Initial Value will be determined by the Calculation Agent and set forth in the final pricing supplement.
Final Value:	The closing level of the Underlying Equity Index on the Valuation Date.
Reference Return:	Measures the percentage increase or decrease in the level of the Underlying Equity Index from the Initial Value to the Final Value, and will be equal to: $\frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}}$
Valuation Date:	Expected to be June 28, 2017, the third Market Measure Business Day before the Maturity Date. If a Market Disruption Event occurs or is continuing on the scheduled Valuation Date or if the scheduled Valuation Date is not a Market Measure Business Day, the Valuation Date will be postponed as described in the accompanying product supplement under “Description of the Securities—The Initial Value and the Final Value” and “Description of the Securities—Market Disruption Events.”

Maturity Date: Expected to be July 3, 2017. If the Valuation Date is postponed, the Maturity Date will be the third business day following the Valuation Date, as postponed.

Payment at Maturity: On the Maturity Date, you will be entitled to receive a cash payment per security determined by the Calculation Agent as described on the following page.

Minimum Payment per Security: \$1,000 per security at maturity, subject to the credit risk of the Issuer and the Guarantor.

Calculation Agent: RBS Securities Inc., an affiliate of RBS

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Determining the Payment at Maturity

On the Maturity Date, you will be entitled to receive a cash payment per security calculated as follows:

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Examples of Payment at Maturity Calculations

Set forth below are three hypothetical examples of Payment at Maturity calculations (rounded to two decimal places), reflecting the following values and hypothetical data:

the Minimum Payment per Security of \$1,000;

the Participation Rate of 100%; and

the hypothetical Initial Value of 1,244.28 (the closing level of the Underlying Equity Index on December 2, 2011)

Any payment at maturity is subject to the ability of RBS, as the issuer of the securities, and RBSG, as the guarantor of the issuer's obligations under the securities, to pay their respective obligations as they become due.

EXAMPLE 1 — The hypothetical Final Value is 871.00 (which is 30% below the hypothetical Initial Value):

$$\begin{array}{l} \text{Reference} \\ \text{Return} \end{array} = \frac{871.00 - 1,244.28}{1,244.28} = -30\%$$

Payment at Maturity (per security) will be equal to the greater of:

- (a) \$1,000 (the Minimum Payment per Security); and
- (b) \$1,000 + (\$1,000 x -30%) = \$700.

Payment at Maturity (per security) = \$1,000 (i.e., a 100% repayment of principal).

The Payment at Maturity is equal to the Minimum Payment per Security of \$1,000 (100% of the Original Offering Price).

EXAMPLE 2 — The hypothetical Final Value is 1,617.56 (which is 30% above the hypothetical Initial Value):

$$\begin{array}{l} \text{Reference} \\ \text{Return} \end{array} = \frac{1,617.56 - 1,244.28}{1,244.28} = 30\%$$

Payment at Maturity (per security) will be equal to:

$$\$1,000 + (\$1,000 \times 100\% \times 30\%) = \$1,300.$$

Payment at Maturity (per security) = \$1,300 (i.e., a 30% return).

EXAMPLE 3 — The hypothetical Final Value is 1,866.42 (which is 50% above the hypothetical Initial Value):

$$\begin{array}{l} \text{Reference Return} \end{array} = \frac{1,866.42 - 1,244.28}{1,244.28} = 50\%$$

Payment at Maturity (per security) will be equal to:

$$\$1,000 + (\$1,000 \times 100\% \times 50\%) = \$1,500.$$

Payment at Maturity (per security) = \$1,500 (i.e., a 50% return).

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### Hypothetical Payout Profile and Payment at Maturity

For purposes of illustration only, the Hypothetical Payout Profile and Hypothetical Payment at Maturity below reflect the hypothetical returns at maturity and hypothetical payments at maturity per security for a range of hypothetical Final Values of the Underlying Equity Index from +100% to -100%. Because the Underlying Equity Index is a price return index, the hypothetical Final Values presented below will not include any income generated by dividends paid on the stocks included in the Underlying Equity Index, which you would otherwise be entitled to receive if you invested in those stocks directly.

The graph and chart reflect the Participation Rate of 100%, the hypothetical Initial Value of 1,244.28, (the closing level of the Underlying Equity Index on December 2, 2011), and the Minimum Payment per Security of \$1,000. The actual Payment at Maturity that you are entitled to receive and the resulting return on your investment will depend on the actual Initial Value, which will be determined on the pricing date and set forth in the final pricing supplement, and the actual Final Value, which will be determined on the Valuation Date.

Any payment at maturity is subject to the ability of RBS, as the issuer of the securities, and RBSG, as the guarantor of the issuer's obligations under the securities, to pay their respective obligations as they become due.

### HYPOTHETICAL PAYOUT PROFILE

This graph reflects the hypothetical returns on the securities at maturity. The green line reflects the hypothetical returns on the securities, while the dotted line reflects the return of a hypothetical direct investment in the stocks included in the Underlying Equity Index, excluding dividends.

### HYPOTHETICAL PAYMENT AT MATURITY

Final Value	Reference Return	Return on the Securities	Payment at Maturity per Security
2,488.56	100.00%	100.00%	\$2,000.00
2,364.13	90.00%	90.00%	\$1,900.00
2,239.70	80.00%	80.00%	\$1,800.00
2,115.28	70.00%	70.00%	\$1,700.00
1,990.85	60.00%	60.00%	\$1,600.00
1,866.42	50.00%	50.00%	\$1,500.00
1,741.99	40.00%	40.00%	\$1,400.00
1,617.56	30.00%	30.00%	\$1,300.00
1,493.14	20.00%	20.00%	\$1,200.00
1,368.71	10.00%	10.00%	\$1,100.00



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1,244.28	0.00%	0.00%	\$1,000.00
1,119.85	-10.00%	0.00%	\$1,000.00
995.42	-20.00%	0.00%	\$1,000.00
871.00	-30.00%	0.00%	\$1,000.00
746.57	-40.00%	0.00%	\$1,000.00
622.14	-50.00%	0.00%	\$1,000.00
497.71	-60.00%	0.00%	\$1,000.00
373.28	-70.00%	0.00%	\$1,000.00
248.86	-80.00%	0.00%	\$1,000.00
124.43	-90.00%	0.00%	\$1,000.00
0.00	-100.00%	0.00%	\$1,000.00

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## Risk Factors

There are important differences between the securities and a conventional debt security. An investment in the securities involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the securities in the “Risk Factors” sections beginning on page S-14 of the product supplement. We also urge you to consult with your investment, legal, accounting, tax, and other advisors before you invest in the securities.

The securities are not conventional debt securities—they do not pay interest.

The credit risk of The Royal Bank of Scotland plc and The Royal Bank of Scotland Group plc, and their credit ratings and credit spreads may adversely affect the value of the securities.

The Payment at Maturity will depend on the Final Value, which is determined only on a valuation date shortly before the maturity date.

The securities may not be a suitable investment for you.

Although we are a bank, the securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other government agency.

The securities will not be listed on any securities exchange and there may be little or no secondary market for the securities.

The value of the securities prior to maturity will be influenced by many unpredictable factors, and may be less than the Original Offering Price.

In the event that we or RBSG, as guarantor, exercise our option to redeem the securities, as described in the section of the product supplement entitled “Description of the Securities—Optional Tax Redemption,” the amount of cash you will be entitled to receive upon redemption of the securities is uncertain.

An increase in the level of the Underlying Equity Index may not increase the value of your securities.

The value of your securities on the pricing date is less than the Original Offering Price due to the underwriting discount and our cost of hedging, both of which can be expected to be reflected in secondary market prices.

Hedging and trading activities by us or our affiliates may adversely affect your return on the securities and the value of the securities.

There may be potential conflicts of interest between security holders and the calculation agent or other of our affiliates.

RBSSI and its affiliates may publish reports, express opinions or provide recommendations that are inconsistent with investing in or holding the securities. Any such reports, opinions or recommendations could affect the value of the Underlying Equity Index and therefore the value of the securities.

An investment in the securities is not the same as a direct investment in the Underlying Equity Index or in the securities that comprise the Underlying Equity Index.

Adjustments to the Underlying Equity Index could adversely affect the securities.

We may engage in business with or involving one or more of the issuers of the securities comprising the Underlying Equity Index without regard to your interests.

We do not control any issuer whose securities comprise the Underlying Equity Index and we are not responsible for any of their disclosure.

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THE ROYAL BANK OF SCOTLAND PLC  
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Linked to the S&P 500® Index due July 3, 2017

Investor Considerations

You may wish to consider an investment in the securities if:

You anticipate that the level of the Underlying Equity Index will increase from the Initial Value to the Final Value.

You do not seek a current income stream from your investment.

You are willing to forgo interest payments on the securities such as fixed or floating rate interest paid on traditional interest bearing debt securities.

You seek exposure to the performance of the Underlying Equity Index with no expectation of dividends or other benefits of owning the securities comprising the Underlying Equity Index.

You are willing to accept that a trading market is not expected to develop for the securities, and you understand that secondary market prices for the securities, if any, will be affected by various factors, including our actual and perceived creditworthiness.

You are able to and willing to hold the securities until maturity.

You are willing to make an investment, the payments on which depend on the creditworthiness of RBS, as the issuer of the securities, and RBSG, as the guarantor of the issuer's obligations under the securities.

The securities may not be an appropriate investment for you if:

You are not willing to be exposed to the performance of the Underlying Equity Index.

You believe that the level of the Underlying Equity Index will not increase sufficiently over the term of the securities to provide you with your desired return.

You seek interest payments or other current income on your investment.

You want to receive dividends or other distributions paid on the securities included in the Underlying Equity Index.

You seek assurances that there will be a liquid market if and when you want to sell the securities prior to maturity.

You are unwilling or are unable to assume the credit risk associated with RBS, as the issuer, and RBSG, as the guarantor of the issuer's obligations under the securities.

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The Underlying Equity Index

We have derived all information contained in this pricing supplement regarding the S&P 500® Index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. Such information reflects the policies of, and is subject to change by, Standard & Poor's Financial Services, LLC ("S&P"). We make no representation or warranty as to the accuracy or completeness of such information. The S&P 500® Index was developed by S&P and is calculated, maintained and published by S&P. S&P has no obligation to continue to publish, and may discontinue the publication of, the S&P 500® Index.

The S&P 500® Index is reported by Bloomberg L.P. under the ticker symbol "SPX."

4,065.7

Total liabilities and stockholders' equity

\$

4,594.3

\$

4,573.6

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended December 29, 2017		December 30, 2016
Cash flows from operating activities:			
Net income	\$ 70.4		\$ 257.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation	25.8		21.6
Depreciation	63.6		55.3
Amortization of intangible assets	5.5		8.5
Deferred income taxes	21.4		1.2
Excess tax benefit from share-based compensation	—		(21.5 )
Changes in assets and liabilities net of acquired balances:			
Receivables, net	(4.1 )		49.3
Inventory	34.5		0.6
Other current and long-term assets	(20.6 )		12.3
Accounts payable	(105.4 )		50.9
Other current and long-term liabilities	269.7		59.9
Net cash provided by operating activities	360.8		495.9
Cash flows from investing activities:			
Capital expenditures	(28.2 )		(50.1 )
Payments for acquisitions, net of cash acquired	—		(13.7 )
Purchased intangibles	(6.0 )		—
Maturity of investments	—		3.2
Net cash used in investing activities	(34.2 )		(60.6 )
Cash flows from financing activities:			
	—		21.5

Excess tax benefit from share-based compensation				
Repurchase of common stock - payroll tax	(44.7)	)	(44.4)	)
withholdings on equity awards				
Repurchase of common stock - stock repurchase program	(172.5)	)	(106.5)	)
Dividends paid	(59.1)	)	(52.2)	)
Net proceeds from exercise of stock options	14.4		14.7	
Payments of contingent consideration	—		(1.7)	)
Net cash used in financing activities	(261.9)	)	(168.6)	)
Net increase in cash and cash equivalents	64.7		266.7	
Cash and cash equivalents at beginning of period	1,616.8		1,083.8	
Cash and cash equivalents at end of period	\$ 1,681.5		\$ 1,350.5	
Supplemental cash flow disclosures:				
Income taxes paid	\$ 7.2		\$ 2.5	

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc., together with its consolidated subsidiaries (“Skyworks” or the “Company”), is empowering the wireless networking revolution. The Company’s highly innovative analog semiconductors are connecting people, places, and things, spanning a number of new and previously unimagined applications within the automotive, broadband, cellular infrastructure, connected home, industrial, medical, military, smartphone, tablet and wearable markets.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and footnote disclosures, normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted pursuant to those rules and regulations. However, in management’s opinion, the financial information reflects all adjustments, including those of a normal recurring nature, necessary to present fairly the results of operations, financial position, and cash flows of the Company for the periods presented. The results of operations, financial position, and cash flows for the Company during the interim periods are not necessarily indicative of those expected for the full year. This information should be read in conjunction with the Company’s financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 29, 2017, filed with the SEC on November 13, 2017, as amended by Amendment No. 1 to such Annual Report on Form 10-K, filed with the SEC on January 26, 2018 (the “2017 10-K”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, expenses, comprehensive income and accumulated other comprehensive loss that are reported in these unaudited consolidated financial statements and accompanying disclosures. The Company evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment. Significant judgment is required in determining the reserves for and fair value of items such as allowance for doubtful accounts, overall fair value assessments of assets and liabilities, particularly those classified as Level 2 or Level 3 in the fair value hierarchy, inventory, intangible assets associated with business combinations, share-based compensation, loss contingencies, and income taxes. In addition, significant judgment is required in determining whether a potential indicator of impairment of long-lived assets exists and in estimating future cash flows for any necessary impairment testing. Actual results could differ significantly from these estimates.

The Company’s fiscal year ends on the Friday closest to September 30. Fiscal year 2018 consists of 52 weeks and ends on September 28, 2018. Fiscal year 2017 consisted of 52 weeks and ended on September 29, 2017. The first quarters of fiscal year 2018 and fiscal year 2017 each consisted of 13 weeks and ended on December 29, 2017, and December 30, 2016, respectively.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 at the beginning of the first quarter of fiscal year 2018. As a result of adoption, the Company recognized a discrete income tax benefit of \$16.2 million to the income tax provision for excess tax benefits generated by the settlement of share-based awards in the first quarter of fiscal year 2018. The adoption also resulted in an increase in



cash flow from operations and a decrease of cash flow from financing of \$16.2 million in the first quarter of fiscal year 2018. Prior periods have not been adjusted. The Company has elected to account for forfeitures as they occur and will no longer estimate future forfeitures. The change in accounting for forfeitures was applied using a modified retrospective transition method and resulted in a cumulative-effect adjustment to retained earnings as of the beginning of the first quarter of fiscal year 2018 in the amount of \$1.9 million. Forfeitures in the future will now be recorded as a benefit in the period they are realized.

#### Supplemental Cash Flow Information

At December 29, 2017, the Company had \$13.6 million for capital equipment that was accrued to other long-term liabilities, and \$8.6 million for capital equipment that was accrued to accounts payable. These amounts accrued for capital equipment purchases have been excluded from the consolidated statements of cash flows for the three months ended December 29, 2017, and are expected to be paid in subsequent periods.

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## 2. FAIR VALUE

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

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by the Company.

**Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis**

The Company measures certain assets and liabilities at fair value on a recurring basis such as its financial instruments. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three months ended December 29, 2017.

Contingent consideration related to business combinations is recorded as a Level 3 liability because management uses significant judgments and unobservable inputs to determine the fair value. The Company reassesses the fair value of its contingent consideration liabilities on a quarterly basis and records any fair value adjustments to earnings in the period that they are determined.

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

	As of December 29, 2017			As of September 29, 2017				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Assets</b>								
Money market funds	\$629.2	\$629.2	\$—	\$—	\$592.6	\$592.6	\$—	\$—
Total	\$629.2	\$629.2	\$—	\$—	\$592.6	\$592.6	\$—	\$—
<b>Liabilities</b>								
Contingent consideration liability recorded for business combinations	\$11.9	\$—	\$—	\$—	\$11.9	\$—	\$—	\$—
Total	\$11.9	\$—	\$—	\$—	\$11.9	\$—	\$—	\$—

There were no changes to the fair value of the Level 3 liabilities during the three months ended December 29, 2017.

**Assets Measured and Recorded at Fair Value on a Nonrecurring Basis**

The Company's non-financial assets and liabilities, such as goodwill, intangible assets, and other long-lived assets resulting from business combinations, are measured at fair value using income approach valuation methodologies at the date of acquisition and are subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three months ended December 29, 2017.

## 3. INVENTORY

Inventory consists of the following (in millions):

	As of	
	December 31,	September 30,
	2017	2017
Raw materials	\$24.9	\$ 24.6
Work-in-process	302.7	330.6
Finished goods	115.9	123.0
Finished goods held on consignment by customers	15.1	15.3
Total inventory	\$458.6	\$ 493.5

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## 4. PROPERTY, PLANT AND EQUIPMENT

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

	As of	
	December 31, 2017	September 30, 2017
Land and improvements	\$11.6	\$ 11.6
Buildings and improvements	142.3	137.8
Furniture and fixtures	29.7	29.5
Machinery and equipment	1,815.3	1,715.3
Construction in progress	109.0	164.8
Total property, plant and equipment, gross	2,107.9	2,059.0
Accumulated depreciation	(1,238.8)	(1,176.7)
Total property, plant and equipment, net	\$869.1	\$ 882.3

## 5. GOODWILL AND INTANGIBLE ASSETS

There were no changes to the carrying amount of goodwill during the three months ended December 29, 2017.

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 the carrying value of goodwill may be impaired. There were no indicators of impairment noted during the three months ended December 29, 2017.

Intangible assets consist of the following (in millions):

	Weighted Average Amortization Period (Years)	As of December 29, 2017			As of September 29, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5	\$78.5	\$ (64.6 )	\$ 13.9	\$78.5	\$ (63.4 )	\$ 15.1
Developed technology and other	5	150.2	(113.6 )	36.6	150.2	(110.9 )	39.3
Trademarks	3	1.6	(0.4 )	1.2	1.6	(0.3 )	1.3
Internally developed software	3	18.0	(1.5 )	16.5	12.1	—	12.1
Total intangible assets		\$248.3	\$ (180.1 )	\$ 68.2	\$242.4	\$ (174.6 )	\$ 67.8

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

	Remaining 2018	2019	2020	2021	2022	Thereafter
Amortization expense	\$ 16.2	\$20.1	\$17.4	\$8.5	\$0.5	\$ 5.5

## 6. INCOME TAXES

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

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	Three Months Ended	
	December 29, 2017	December 30, 2016
United States income taxes	\$ 304.9	\$ 56.5
Foreign income taxes	10.3	6.8
Provision for income taxes	\$ 315.2	\$ 63.3
Effective tax rate	81.7 %	19.7 %

The difference between the Company's effective tax rate and the 24.6% United States federal statutory rate for the three months ended December 29, 2017, resulted primarily from a one-time charge of \$257.8 million related to the mandatory deemed repatriation tax on foreign earnings, a one-time charge of \$18.5 million related to the revaluation of the deferred tax assets and liabilities related to tax reform, and an increase in tax expense related to a change in the reserve for uncertain tax positions, partially offset by foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and a benefit of \$16.2 million related to windfall stock deductions.

On December 22, 2017, the President of the United States signed into law new tax legislation, which includes, among other things, a reduction of the United States corporate tax rate from 35% to 21%, a mandatory deemed repatriation tax on foreign earnings, repeal of the corporate alternative minimum tax and the domestic production activities deduction, and expensing of certain capital investments. The new law makes fundamental changes to the taxation of multinational entities, including a shift from worldwide taxation with deferral to a hybrid territorial system, featuring a participation exemption regime, a minimum tax on low-taxed foreign earnings, and new measures to deter base erosion and promote export from the United States. The Company expects this tax reform to have significant continued impact on its provision for income taxes and is in the process of evaluating the impact.

Staff Accounting Bulletin 118 ("SAB 118"), provides a measurement period during which companies may analyze the impacts of newly enacted legislation when the company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the new legislation, not to exceed one year. In accordance with SAB 118, the Company has estimated the impact of the new legislation as it pertains to various items, including a one-time charge of \$257.8 million related to the mandatory deemed repatriation tax on foreign earnings and a one-time charge of \$18.5 million related to the revaluation of its deferred tax assets and liabilities, using the new federal statutory tax rate of 21%. The Company believes these amounts are reasonable estimates; however these amounts are provisional and are subject to change. Additional time is needed to gather the information necessary to finalize the computations of the impact of the new tax legislation. The changes included in the new tax legislation are broad and complex. The final transition impacts of the new tax legislation may differ from the above estimates, possibly materially, due to, among other things, changes in interpretations of the new tax legislation, any legislative action to address questions that arise because of the new tax legislation, any changes in accounting standards for income taxes or related interpretations in response to the new tax legislation, or any updates or changes to estimates the Company has utilized to calculate the transition impacts. SAB 118 would allow for a measurement period of up to one year after the enactment date of the new tax legislation to finalize the recording of the related tax impacts. The Company currently anticipates finalizing and recording any resulting adjustments by the end of its current fiscal year ending September 28, 2018.

The reduction of the corporate tax rate to 21% is effective within fiscal year 2018, therefore the Company is subject to a blended fiscal year 2018 tax rate of approximately 24.6%, which is computed by using the number of days of the fiscal year during which the Company is subject to the old tax rate of 35% and the number of days the Company is subject to the newly enacted tax rate of 21%.

Accrued taxes of \$62.5 million and \$32.2 million have been included in other current liabilities within the consolidated balance sheets as of December 29, 2017, and December 30, 2016, respectively. The \$257.8 million deemed repatriation tax is payable over the next eight years, \$20.6 million per year for each of the next five years, followed by payments of \$38.7 million, \$51.6 million, and \$64.5 million in years six through eight, respectively. The Company has accrued \$237.2 million of the deemed repatriation tax in long term liabilities within the consolidated balance sheet as of December 29, 2017. Certain balances accrued by the Company during the three months ended December 29, 2017, related to the enactment of the legislation, including a charge related to the mandatory deemed repatriation tax on foreign earnings and the revaluation of the Company's deferred tax assets and liabilities, are based on estimates which will be refined during the measurement period as defined in Staff Accounting Bulletin No. 118.

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The difference between the Company's effective tax rate and the 35% United States federal statutory rate for the three months ended December 30, 2016, resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and benefits from the settlement of a Canadian audit of the fiscal years 2010 and 2011 income tax returns, partially offset by an increase in the Company's tax expense related to a change in the Company's reserve for uncertain tax positions.

## 7. COMMITMENTS AND CONTINGENCIES

### Legal Matters

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

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

The Company monitors the status of legal proceedings and other contingencies on an ongoing basis to ensure loss contingencies are recognized and/or disclosed in its financial statements and footnotes. The Company does not believe there are any pending legal proceedings that are reasonably possible to result in a material loss. The Company is engaged in various legal actions in the normal course of business and, while there can be no assurances, the Company believes the outcome of all pending litigation involving the Company will not have, individually or in the aggregate, a material adverse effect on its business.

### Guarantees and Indemnifications

The Company has made no significant contractual guarantees for the benefit of third parties. However, the Company generally indemnifies its customers from third-party intellectual property infringement litigation claims related to its products and, on occasion, also provides other indemnities related to product sales. In connection with certain facility leases, the Company has indemnified its lessors for certain claims arising from the facility or the lease.

The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the state of Delaware. The duration of the indemnities varies, and in many cases is indefinite. The indemnities to customers in connection with product sales generally are subject to limits based upon the amount of the related product sales and in many cases are subject to geographic and other restrictions. In certain instances, the Company's indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities in the accompanying consolidated balance sheets and does not expect that such obligations will have a material adverse impact on its financial condition or results of operations.

## 8. STOCKHOLDERS' EQUITY

### Stock Repurchase Program

On January 17, 2017, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to repurchase up to \$500 million of its common stock from time to time prior to January 17, 2019, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. During the three months ended December 29, 2017, the Company paid \$172.5 million (including commissions) in connection with the repurchase of 1.65 million shares of its common stock (paying an average price of \$104.52 per share). As of December 29, 2017, \$1.7 million remained available under the existing stock repurchase authorization.

On January 31, 2018, the Board of Directors approved a new stock repurchase program, pursuant to which the Company is authorized to repurchase up to \$1 billion of its common stock from time to time prior to January 31, 2020, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. This newly authorized stock repurchase plan replaces in its entirety the aforementioned January 17, 2017, plan. The timing and amount of any shares of the Company's common stock that are repurchased under the new repurchase program will be determined by the Company's



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management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. The Company currently expects to fund the repurchase program using the Company's working capital.

## Dividends

On February 5, 2018, the Company announced that the Board of Directors had declared a cash dividend on its common stock of \$0.32 per share, payable on March 15, 2018, to the Company's stockholders of record as of the close of business on February 22, 2018. During the three months ended December 29, 2017, the Company declared and paid a \$0.32 dividend per common share with a total charge to retained earnings of \$58.8 million.

## Share-based Compensation

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

	Three Months Ended	
	December 29, 2017	December 30, 2016
Cost of goods sold	\$4.1	\$ 3.8
Research and development	11.2	8.3
Selling, general and administrative	10.5	9.5
Total share-based compensation	\$25.8	\$ 21.6

On November 15, 2017, the Company agreed to potentially issue not more than 1% of our common stock to an unaffiliated third party as a contingent consideration for its role under a multi-year collaboration agreement, upon the achievement of certain product sales milestones. The shares have been valued utilizing a Monte Carlo valuation model and could be issued after mid-2020. The shares will be marked to estimated fair value each reporting period through earnings. The amount recorded in the statement of operations within selling, general and administrative expense for the three months ended December 29, 2017, is not material.

## 9. EARNINGS PER SHARE

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

	Three Months Ended	
	December 29, 2017	December 30, 2016
Net income	\$70.4	\$ 257.8
Weighted average shares outstanding – basic	183.1	184.8
Dilutive effect of equity based awards	2.4	2.5
Weighted average shares outstanding – diluted	185.5	187.3
Net income per share – basic	\$0.38	\$ 1.39
Net income per share – diluted	\$0.38	\$ 1.38

Anti-dilutive common stock equivalents	0.4	1.4
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Basic earnings per share are calculated by dividing net income by the weighted average number of shares of the Company's common stock outstanding during the period. The calculation of diluted earnings per share includes the dilutive effect of equity based awards that were outstanding during the three months ended December 29, 2017, and December 30, 2016, using the treasury stock method. Certain of the Company's outstanding share-based awards, noted

in the table above, were excluded because they were anti-dilutive, but they could become dilutive in the future.

#### 10. RESTRUCTURING AND OTHER CHARGES

During the three months ended December 29, 2017, the Company paid the \$0.2 million in restructuring-related charges that remained accrued at September 29, 2017, but did not incur any restructuring-related charges during the period.

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

This report and other documents we have filed with the SEC contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the "safe harbor" created by those sections. Words such as "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "should," "will," "would," and similar expressions or variations or negatives of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new products, enhancements of technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements involve inherent risks and uncertainties and actual results and outcomes may differ materially and adversely from the results and outcomes discussed in or anticipated by the forward-looking statements. A number of important factors could cause actual results to differ materially and adversely from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in this Quarterly Report on Form 10-Q and the 2017 10-K, under the heading "Risk Factors" and in the other documents we have filed with the SEC in evaluating our forward-looking statements. We have no plans, and undertake no obligation, to revise or update our forward-looking statements to reflect any event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

In this document, the words "we," "our," "ours" and "us" refer only to Skyworks Solutions, Inc. and its subsidiaries and not any other person or entity.

## RESULTS OF OPERATIONS

## THREE MONTHS ENDED DECEMBER 29, 2017, AND DECEMBER 30, 2016

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

	Three Months Ended		
	December 29, 2017	December 30, 2016	
Net revenue	100.0%	100.0	%
Cost of goods sold	49.0	49.3	
Gross profit	51.0	50.7	
Operating expenses:			
Research and development	9.3	9.0	
Selling, general and administrative	4.9	5.6	
Amortization of acquisition-related intangibles	0.4	0.9	
Restructuring and other charges	—	0.1	
Total operating expenses	14.6	15.6	
Operating income	36.4	35.1	
Other income (expense), net	0.2	(0.1	)
Income before income taxes	36.6	35.0	
Provision for income taxes	30.0	6.9	
Net income	6.6	% 28.1	%

## OVERVIEW

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

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## GENERAL

During the three months ended December 29, 2017, the following key factors contributed to our overall results of operations, financial position and cash flows:

Net revenue increased by 15% to \$1,052 million for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017. This increase in revenue was primarily driven by our success in capturing a higher share of the increasing radio frequency and analog content per device as smartphone models continue to evolve, the increasing number of applications for the Internet of Things, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

Our ending cash and cash equivalents balance increased approximately 4% to \$1,682 million as of December 29, 2017, from \$1,617 million as of September 29, 2017. This increase in cash and cash equivalents was primarily the result of cash generated from operations of \$361 million, partially offset by the repurchase of 1.65 million shares of common stock for \$173 million, dividend payments of \$59 million, and capital expenditures of \$28 million during the three months ended December 29, 2017.

## NET REVENUE

	Three Months Ended	
	December 29, 2017	December 30, 2016
	Change	
(dollars in millions)		
Net revenue	\$1,051.9	\$ 914.3
	15.0%	

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

We generated net revenue of \$1,051.9 million for the three months ended December 29, 2017, an increase of \$137.6 million or 15%, as compared with \$914.3 million for the corresponding period in fiscal year 2017. This increase in net revenue for the three months ended December 29, 2017, is primarily related to an increase in demand for our components from a key smartphone customer as compared with the corresponding period in fiscal year 2017, partially offset by decreases in average selling prices.

## GROSS PROFIT

	Three Months Ended	
	December 29, 2017	December 30, 2016
	Change	
(dollars in millions)		
Gross profit	\$536.8	\$ 463.9
% of net revenue	51.0 %	50.7 %

Gross profit represents net revenue less cost of goods sold. Our cost of goods sold consists primarily of purchased materials, labor and overhead (including depreciation and share-based compensation expense) associated with product manufacturing. Erosion of average selling prices of established products is typical of the semiconductor industry. As part of our normal course of business, we mitigate the gross margin impact of declining average selling prices with efforts to increase unit volumes, reduce material costs, improve manufacturing efficiencies, lower manufacturing costs

of existing products and by introducing new and higher value-added products.

The \$72.9 million increase in gross profit for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017, was primarily the result of favorable product mix and higher unit volumes that positively impacted gross profit by \$81.2 million. These positive impacts were partially offset by lower average selling prices with a gross profit impact of \$8.3 million. Gross profit margin increased to 51.0% of net revenue for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017, due to the overall increase in revenue and the aforementioned factors.

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## RESEARCH AND DEVELOPMENT

	Three Months Ended			
	December 29, 2017	Change	December 30, 2016	
(dollars in millions)				
Research and development	\$98.0	19.5%	\$ 82.0	
% of net revenue	9.3	%	9.0	%

Research and development expenses consist primarily of direct personnel costs including share-based compensation expense, costs for pre-production evaluation and testing of new devices, masks, engineering prototypes and design tool costs.

The increase in research and development expenses for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017, was primarily related to an increase in employee-related compensation expense and product development-related expenses. Research and development expense increased as a percentage of net revenue when compared with the corresponding period in fiscal year 2017 as a result of our increased investment in developing new product capabilities.

## SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended			
	December 29, 2017	Change	December 30, 2016	
(dollars in millions)				
Selling, general and administrative	\$51.3	0.8%	\$ 50.9	
% of net revenue	4.9	%	5.6	%

Selling, general and administrative expenses include legal and related costs, accounting, treasury, human resources, information systems, customer service, bad debt expense, sales commissions, share-based compensation expense, advertising, marketing, and costs associated with business combinations completed or contemplated during the period and other costs.

The increase in selling, general and administrative expenses for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017, was primarily related to an increase in employee compensation. Selling, general and administrative expense decreased as a percentage of net revenue when compared with the corresponding period in fiscal year 2017 primarily due to the increase in net revenue.

## AMORTIZATION OF INTANGIBLES

	Three Months Ended			
	December 29, 2017	Change	December 30, 2016	
(dollars in millions)				
Amortization of acquisition-related intangibles	\$4.0	(52.9)%	\$ 8.5	
% of net revenue	0.4	%	0.9	%

The decrease in amortization expense for the three months ended December 29, 2017, as compared with the corresponding period in fiscal year 2017, was primarily due to the end of the useful lives of certain intangible assets that were acquired in prior fiscal years.

## RESTRUCTURING AND OTHER CHARGES

Three Months Ended  
 December 29, December 30,  
 Change  
 2017 2016

(dollars in millions)

Restructuring and other charges	\$—	(100.0)%	\$ 0.6	
% of net revenue	—%		0.1	%

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There were no new restructuring charges incurred during the three months ended December 29, 2017.

## PROVISION FOR INCOME TAXES

	Three Months Ended	
	December 29, 2017	December 30, 2016
	Change	
(dollars in millions)		
Provision for income taxes	\$315.2	\$ 63.3
% of net revenue	30.0 %	6.9 %

We recorded a provision for income taxes of \$315.2 million (which consisted of \$304.9 million and \$10.3 million related to United States and foreign income taxes, respectively) for the three months ended December 29, 2017.

On December 22, 2017, the President of the United States signed into law new tax legislation, which includes, among other things, a reduction of the United States corporate tax rate from 35% to 21%, a mandatory deemed repatriation tax on foreign earnings, repeal of the corporate alternative minimum tax and the domestic production activities deduction, and expensing of certain capital investments. The new law makes fundamental changes to the taxation of multinational entities, including a shift from worldwide taxation with deferral to a hybrid territorial system, featuring a participation exemption regime, a minimum tax on low-taxed foreign earnings, and new measures to deter base erosion and promote export from the United States. We expect this tax reform to have significant continued impact on our provision for income taxes and are in the process of evaluating the impact.

Staff Accounting Bulletin 118 (“SAB 118”), provides a measurement period during which companies may analyze the impacts of newly enacted legislation when the company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the new legislation, not to exceed one year. In accordance with SAB 118, we have estimated the impact of the new legislation as it pertains to various items, including a one-time charge of \$257.8 million related to the mandatory deemed repatriation tax on foreign earnings and a one-time charge of \$18.5 million related to the revaluation of our deferred tax assets and liabilities, using the new federal statutory tax rate of 21%. We believe these amounts are reasonable estimates; however these amounts are provisional and are subject to change. Additional time is needed to gather the information necessary to finalize the computations of the impact of the new tax legislation. The changes included in the new tax legislation are broad and complex. The final transition impacts of the new tax legislation may differ from the above estimates, possibly materially, due to, among other things, changes in interpretations of the new tax legislation, any legislative action to address questions that arise because of the new tax legislation, any changes in accounting standards for income taxes or related interpretations in response to the new tax legislation, or any updates or changes to estimates we have utilized to calculate the transition impacts. SAB 118 would allow for a measurement period of up to one year after the enactment date of the new tax legislation to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending September 28, 2018.

The reduction of the corporate tax rate to 21% is effective within fiscal year 2018, therefore we are subject to a blended fiscal year 2018 tax rate of approximately 24.6%, which is computed by using the number of days of the fiscal year during which we are subject to the old tax rate of 35% and the number of days we are subject to the newly enacted tax rate of 21%.

The effective tax rate for the three months ended December 29, 2017, was 81.7%, as compared with 19.7% for the three months ended December 30, 2016. The difference between our three month effective tax rate of 81.7% and the federal statutory rate of 24.6% resulted primarily from a one-time charge of \$257.8 million related to the mandatory

deemed repatriation tax on foreign earnings, a one-time charge of \$18.5 million related to the revaluation of our deferred tax assets and liabilities related to tax reform, and an increase in tax expense related to a change in the reserve for uncertain tax positions, partially offset by foreign earnings taxed at rates lower than the federal statutory rate, the domestic production activities deduction, research and experimentation tax credits earned, and a benefit of \$16.2 million related to windfall stock deductions.

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## LIQUIDITY AND CAPITAL RESOURCES

(in millions)	Three Months Ended	
	December 2017	December 30, 2016
Cash and cash equivalents at beginning of period	\$1,616.8	\$ 1,083.8
Net cash provided by operating activities	360.8	495.9
Net cash used in investing activities	(34.2 )	(60.6 )
Net cash used in financing activities	(261.9 )	(168.6 )
Cash and cash equivalents at end of period	\$1,681.5	\$ 1,350.5

## Cash flow provided by operating activities:

Cash provided by operating activities consists of net income for the period adjusted for certain non-cash items and changes in certain operating assets and liabilities. During the three months ended December 29, 2017, we generated \$360.8 million of cash from operating activities, a decrease of \$135.1 million as compared with the \$495.9 million generated during the three months ended December 30, 2016. The decrease in cash flow from operating activities during the three months ended December 29, 2017, was primarily related to a net change in cash outflows of \$156.3 million related to a decrease in accounts payable as a result of the timing of vendor payments.

## Cash flow used in investing activities:

Cash used in investing activities consists primarily of cash paid for acquisitions net of cash acquired, capital expenditures, cash received from the sale of capital assets, and cash related to the sale or maturity of investments. Cash used in investing activities was \$34.2 million during the three months ended December 29, 2017, as compared with \$60.6 million during the three months ended December 30, 2016. The cash used for capital expenditures was \$28.2 million, primarily related to the purchase of manufacturing equipment to support the expansion of our assembly and test operations, filter production operations, and wafer fabrication facilities. During the three months ended December 29, 2017, we paid \$6.0 million related to purchased intangibles.

## Cash flow used in financing activities:

Cash used in financing activities consists primarily of cash transactions related to equity. During the three months ended December 29, 2017, we had net cash outflows from financing activities of \$261.9 million, as compared with net cash outflows from financing activities of \$168.6 million during the three months ended December 30, 2016. During the three months ended December 29, 2017, we had the following significant uses of cash:

- \$172.5 million related to our repurchase of 1.65 million shares of our common stock pursuant to the stock repurchase program approved by our Board of Directors on January 17, 2017;
- \$59.1 million related to the payment of cash dividends on our common stock; and
- \$44.7 million related to the minimum statutory payroll tax withholdings payments on the vesting of employee performance and restricted stock awards.

These uses of cash were partially offset by the net proceeds from employee stock option exercises of \$14.4 million during the three months ended December 29, 2017.

## Liquidity:

Cash and cash equivalent balances were \$1,681.5 million as of December 29, 2017, representing an increase of \$64.7 million from September 29, 2017. The increase resulted from \$360.8 million in cash generated from operations which was partially offset by \$172.5 million used to repurchase 1.65 million shares of stock, \$59.1 million in cash dividend payments, \$44.7 million used to repurchase shares related to payroll tax withholdings on equity awards, and \$28.2 million in capital expenditures. Based on our historical results of operations, we expect that our cash and cash

equivalents on hand and the cash we expect to generate from operations will be sufficient to fund our research and development, capital expenditures, potential acquisitions, working capital, quarterly cash dividend payments (if such dividends are declared by the Board of Directors), outstanding commitments and other liquidity requirements associated with existing operations for at least the next 12 months. However, we cannot be certain that our cash on hand and cash generated from operations will be available in the future to fund all of our capital and operating requirements. In addition, any future strategic investments and acquisitions may require additional cash and capital resources. If we are unable to obtain sufficient cash or capital to meet our needs on a timely basis and on favorable terms, our business and operations could be materially and adversely affected.

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Our invested cash balances primarily consist of highly liquid term deposits with original maturities of 90 days or less and money market funds where the underlying securities primarily consist of United States treasury obligations, United States agency obligations and repurchase agreements collateralized by United States government and agency obligations.

Our cash and cash equivalent balance of \$1,681.5 million as of December 29, 2017, consisted of \$742.0 million held domestically and \$939.5 million held by foreign subsidiaries.

On January 31, 2018, the Board of Directors approved a new stock repurchase program, pursuant to which we are authorized to repurchase up to \$1 billion of our common stock from time to time prior to January 31, 2020, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. This newly authorized stock repurchase plan replaces in its entirety the aforementioned January 17, 2017 plan. The timing and amount of any shares of the Company's common stock that are repurchased under the new repurchase program will be determined based on our evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. We currently expect to fund the repurchase program using our working capital.

## CONTRACTUAL OBLIGATIONS

Our contractual obligations disclosure in the 2017 10-K has not materially changed since we filed that report, except for the \$257.8 million deemed repatriation tax on foreign earnings, which is payable over the next eight years, \$20.6 million per year for each of the next five years, followed by payments of \$38.7 million, \$51.6 million and \$64.5 million in years six through eight, respectively.

## OFF-BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet arrangements as defined in SEC Regulation S-K Item- 303(a)(4)(ii).

## Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are subject to overall financial market risks, such as changes in market liquidity, credit quality, investment risk, interest rate risk, and foreign exchange rate risk as described below.

### Investment and Interest Rate Risk

Our exposure to interest rate and general market risks relates principally to our investment portfolio, which consists of cash and cash equivalents (time deposits, certificates of deposit and money market funds) that total approximately \$1,681.5 million as of December 29, 2017.

The main objectives of our investment activities are liquidity and preservation of capital. Our cash equivalent investments have short-term maturity periods that dampen the impact of market or interest rate risk. Credit risk associated with our investments is not material because our money market and deposits are diversified across several financial institutions with high credit ratings, which reduces the amount of credit exposure to any one counterparty.

Based on our results of operations for the three months ended December 29, 2017, a hypothetical reduction in the interest rates on our cash and cash equivalents to zero would result in an immaterial reduction of interest income with a de minimis impact on income before taxes.

Given the low interest rate environment, the objectives of our investment activities, and the relatively low interest income generated from our cash and cash equivalents and other investments, we do not believe that investment or

interest rate risks pose material exposures to our current business or results of operations.

#### Foreign Exchange Rate Risk

Substantially all sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, thereby reducing the impact of foreign exchange rate fluctuations on our results. A percentage of our international operational expenses are denominated in foreign currencies and exchange rate volatility could positively or negatively impact those operating costs. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete.

Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Given the relatively small number of customers and arrangements with third-party manufacturers denominated in foreign currencies, we do not believe that foreign exchange volatility has a material impact on our current business or results of operations. However,

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fluctuations in currency exchange rates could have a greater effect on our business or results of operations in the future to the extent our expenses increasingly become denominated in foreign currencies.

We may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures.

### Recently Issued Accounting Pronouncements

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. We will adopt this guidance during the first quarter of fiscal year 2019. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have established a cross-functional team to assess the potential impact of the new revenue standard. The assessment process consists of reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts and identifying appropriate changes to the business processes, systems and controls to support revenue recognition and disclosure requirements under the new standard. We are currently evaluating the potential impact on our business processes, systems, controls and our consolidated financial statements of the new revenue standard and do not anticipate significant changes to our statement of operations. Our assessment will be completed during fiscal year 2018 at which time the method of adoption will be selected.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018, with early adoption permitted. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented. We are currently evaluating the effect that ASU 2016-02 will have on the consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The effective date for the standard is for interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We are currently evaluating the potential impact of this standard on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), (“ASU 2016-15”). This ASU provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that ASU 2016-15 will have on the consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income taxes (Topic 740), Intra-entity transfers of an asset other than inventory (“ASU 2016-16”). This ASU provides guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving)

entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The effective date for the standard is for fiscal years beginning after December, 15, 2017, on a modified retrospective basis, and early adoption is permitted. We are currently evaluating the effect ASU 2016-16 will have on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments are to be applied on a prospective basis. The effective date for adoption of this standard is for the first annual or interim goodwill impairment test in the fiscal year beginning after December 15, 2019, with early adoption permitted for interim or annual



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goodwill impairment tests performed on testing dates after January 1, 2017. We will adopt this amendment during our second fiscal quarter of 2018.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The effective date for the standard is for interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We are currently evaluating the potential impact of this standard on the consolidated financial statements.

### Item 4. Controls and Procedures.

#### Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 29, 2017. 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 management’s evaluation of our disclosure controls and procedures as of December 29, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in internal controls over financial reporting

There are no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the period covered by this report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

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

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

Company may also be involved in legal proceedings in the ordinary course of business.

The Company monitors the status of legal proceedings and other contingencies on an ongoing basis to ensure loss contingencies are recognized and/or disclosed in its financial statements and footnotes. The Company does not believe there are any pending legal proceedings that are reasonably possible to result in a material loss. The Company is engaged in various legal actions in the normal course of business and, while there can be no assurances, the Company believes the outcome of all pending litigation involving the Company will not have, individually or in the aggregate, a material adverse effect on its business.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the 2017 10-K, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in the 2017 10-K.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information regarding repurchases of common stock made during the three months ended December 29, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
09/30/17-10/27/17—		\$—	—	\$174.1 million
10/28/17-11/24/17	703,287(2)	\$110.48	300,000	\$141.1 million
11/25/17-12/29/17	1,350,605(3)	\$103.29	1,350,000	\$1.7 million
Total	2,053,892		1,650,000	

(1) The stock repurchase program approved by the Board of Directors on January 17, 2017, authorizes the repurchase of up to \$500.0 million of our common stock from time to time on the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements. On January 31, 2018, the Board of Directors approved a new stock repurchase program that replaces in its entirety the January 17, 2017, plan.

(2) 300,000 shares were repurchased at an average price of \$110.03 per share as part of our stock repurchase program, and 403,287 shares were repurchased by us at the fair market value of the common stock as of the applicable purchase date, in connection with the satisfaction of tax withholding obligations under equity award agreements with an average price of \$110.82 per share.

(3) 1,350,000 shares were repurchased at an average price of \$103.30 per share as part of our stock repurchase program, and 605 shares were repurchased by us at the fair market value of the common stock as of the applicable purchase date, in connection with the satisfaction of tax withholding obligations under equity award agreements with an average price of \$99.20 per share.

On November 15, 2017, we agreed to potentially issue not more than 1% of our common stock to an unaffiliated third party as contingent consideration for its role under a multi-year collaboration agreement. The shares are issuable for no cash payment but only upon the achievement of certain product sale milestones, certain terminations of the agreement or if the Company engages in certain competition with the third party. Though the timing is not certain, the Company does not expect achievement of the product sale milestones to occur any time prior to mid-2020. The transaction was made in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act. The Company has agreed to file a registration statement with the Securities and Exchange Commission registering the resale of any issued shares.

## Item 5. Other Information.

## Approval of Revised Fiscal Year 2018 Executive Incentive Plan

On January 30, 2018, the Compensation Committee (the “Compensation Committee”) of the Company’s Board of Directors amended the Company’s Fiscal Year 2018 Executive Incentive Plan (the “Incentive Plan”) to provide that the portion of the incentive awards under the Incentive Plan that previously was attainable based on the Company’s achievement against a non-GAAP earnings per share (“EPS”) performance metric will instead be attainable based on the Company’s achievement against a non-GAAP operating income performance metric. The non-GAAP operating income performance metric was established by the Compensation Committee on November 7, 2017, concurrently with the non-GAAP EPS performance metric.

The Compensation Committee approved the change in metrics in light of the favorable impact on the Company's non-GAAP EPS for fiscal year 2018 that is now expected as a result of the new U.S. tax legislation, which was enacted on December 22, 2017, as well as the potential favorable impact on non-GAAP EPS of the Company's new stock repurchase program. The Compensation Committee believes this change maintains the original rigor of the performance incentive objectives of the Incentive Plan. No other changes were made to the Incentive Plan.

#### Amendment to Third Amended and Restated By-laws

Effective January 31, 2018, the Board of Directors approved and adopted an amendment to our Third Amended and Restated By-laws (the "By-laws") to grant stockholders the right to call a special meeting of stockholders. Prior to the adoption of this provision, a special meeting of stockholders could only be called pursuant to a resolution adopted by a majority of the members of the Board of Directors.

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Article II, Section 3 of the By-laws has been amended to permit stockholders who, individually or in the aggregate, own at least 25% of our outstanding shares of common stock and who have held such shares continuously for at least one year prior to their request, to call a special meeting of stockholders, subject to the terms and conditions set forth in the By-laws.

This description of the amendment to the By-laws is qualified in its entirety by reference to the text of the By-laws, as amended, which is filed as Exhibit 3.1 to this Quarterly Report on Form 10-Q.

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## Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by		Filed Herewith
		Form File No.	Reference Exhibit Filing Date	
3.1	<u>Third Amended and Restated By-laws, as Amended</u>			X
10.1	<u>Fiscal Year 2018 Executive Incentive Plan</u>			X
10.2	<u>Fiscal Year 2018 Executive Incentive Plan, as Amended</u>			X
31.1	<u>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</u>			X
31.2	<u>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</u>			X
32.1	<u>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</u>			X
32.2	<u>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</u>			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema Document			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			X

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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.

SKYWORKS SOLUTIONS, INC.

Date: February 5, 2018 By: /s/ Liam K. Griffin  
Liam K. Griffin  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Kris Sennesael  
Kris Sennesael  
  
Senior Vice President and Chief Financial Officer  
  
(Principal Accounting and Financial Officer)