



Skyworks Solutions, Inc. is the world's largest company focused exclusively on wireless semiconductor solutions. The company offers front-end modules, radio frequency subsystems and cellular systems to leading wireless handset and infrastructure customers.

Skyworks is headquartered in Woburn, Massachusetts and has executive offices in Irvine, California. The company has design, engineering, manufacturing, marketing, sales and service facilities throughout North America, Europe, Japan and Asia Pacific.

## T O U R S H A R E H O L D E R S

Fiscal 2002 was an exciting time for our business and will be remembered as the birth year of Skyworks Solutions, formed through the merger of Alpha Industries and Conexant Systems' wireless business.

Entering the period as Alpha, we recognized a rapidly changing wireless market landscape, one characterized by shorter product life cycles, simplified cellular handset architectures and higher levels of semiconductor integration. At the same time, our customers were seeking to dramatically reduce their supplier base in order to intensify their efforts on branding, distribution and defining the handset's look and feel.

These accelerating trends presented a significant opportunity for a focused supplier with a comprehensive portfolio of wireless technologies and products. With this premise in mind, we set out to find a complementary partner with a shared vision of the industry's evolution.

## C R E A T I N G S K Y W O R K S

We found our perfect match in Conexant's wireless business, and in December of 2001 we embarked on a journey to create a new company differentiated by the industry's broadest technology portfolio and a diversified customer base. Further, the new entity would possess the size to drive economies of scale in manufacturing and the critical mass to remain at the leading edge of technological development, enabling us to take share in a rapidly expanding market.

We crafted the name Skyworks as it defines who we are and what we do. "Sky" represents the vast and growing nature of wireless communications, and "works" addresses our ability to solve problems and provide customers with integrated solutions. Additionally, we adopted the tagline "Breakthrough Simplicity" to convey our goal of turning complexity into simplicity, and simplicity into competitive advantage.

## QUARTERLY REVENUE COMPARISON

(dollars in millions)



## INTEGRATION ACCOMPLISHMENTS

Ahead of our launch, we assembled a team of over 100 people across both companies to develop the best organizational, logistical and operational solutions for our new company. On June 26, 2002, our very first day as Skyworks, we implemented a set of change initiatives aimed at:

- \_ Reducing our cost structure
- \_ Streamlining the organization while improving our speed and agility
- \_ Focusing on leadership products and exploiting our differential advantages
- \_ Shortening manufacturing cycle times and improving capacity utilization
- \_ Eliminating duplicate operations, functions and processes

I am particularly pleased to report that our integration teams exceeded all expectations. We successfully reduced our quarterly break-even by \$30 million, completed our consolidation activities more than three months ahead of schedule and transitioned our employees to 50% fewer facilities. In parallel, we didn't miss a single customer commitment and, in fact, grew our business in each and every quarter from the time of the merger announcement. Most importantly, we reached our publicly stated goal of achieving a \$600 million annualized revenue run-rate with operating profitability in our very first full quarter as Skyworks. Subsequently, we completed an accretive transaction to finance our Mexicali, Mexico assembly and test facility acquisition as well as retire virtually all of our short-term debt, significantly enhancing our balance sheet.

## FROM LEFT TO RIGHT

*Paul E. Vincent, Chief Financial Officer*

*Kevin Barber, Senior Vice President, Operations*

*Liam Griffin, Vice President, Sales and Marketing*

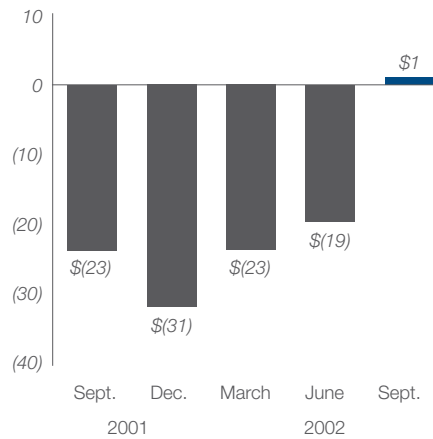
*George LeVan, Vice President, Human Resources*

*Nien-Tsu Shen, Vice President, Quality*



## OPERATING PROFIT PERFORMANCE

(dollars in millions)



## OUR VISION

Quite simply, our vision is to become the premier supplier of wireless semiconductor solutions. With our integration activities now behind us, we enter fiscal year 2003 with an intensified focus on realizing this vision through three powerful strategic goals:

- \_ Leveraging our product depth and breadth across our diversified customer base with truly differentiated solutions
- \_ Growing significantly faster than the overall market through share gains coupled with capture of an increasing amount of semiconductor content within the handset
- \_ Steadily marching towards our target model of 45% gross margins and operating margins in excess of 15%

## THE SKYWORKS ADVANTAGE

With a legacy of success and the spirit of a start-up, Skyworks is poised to capture a disproportionate share of a \$10 billion total addressable market, driven by four key factors:

First, we have the unique ability to bridge the divide between RF, mixed-signal and digital technologies. As the market leader in switches, power amplifier modules and single-chip direct conversion transceivers, we are at the forefront of integrating the entire RF section into a single package. Further, our complete cellular system solution, which adds DSP and software functionality, is rapidly becoming the solution of choice across our customer base of original equipment manufacturers (OEM), original development manufacturers (ODM) and contract manufacturers.

## FROM LEFT TO RIGHT

*Mohy Abdelgany, Vice President, RF Systems*

*Klaus Buehring, Vice President, Power Amplifier Modules*

*David Fryklund, Vice President, Switch and Control Products*

*Richard Langman, Vice President, Wireless Infrastructure Products*

*Murthy Renduchintala, Vice President, Cellular Systems*



The graphs above reflect revenue and operating results for FY02 by quarter, excluding one-time items, assuming Alpha and Conexant's wireless business had been combined

" OUR VISION IS TO BECOME THE PREMIER SUPPLIER OF WIRELESS SEMICONDUCTOR SOLUTIONS."

Second, we are vertically integrated where we can differentiate ourselves for the lowest cost performance. We have state-of-the-art GaAs HBT and PHEMT fabrication facilities coupled with access to key analog, RF CMOS, SiGe and digital CMOS process technologies. In addition, we have an unparalleled assembly and test operation located in Mexicali, Mexico enabling the production of our multi-chip module solutions.

Third, we possess a highly skilled and motivated team. With roughly 750 engineers worldwide and 100 dedicated sales, marketing and technical support personnel throughout Asia, we are well positioned to respond to the growing needs of regional partners.

And finally, we have an extraordinarily diverse customer base. We have strategic relationships with virtually all of the industry leaders who are defining next-generation platforms, setting industry standards and shaping the future of wireless communications.

With all of these key elements now in place, we are squarely focused on realizing our vision of becoming the premier supplier of wireless semiconductor solutions.

In closing, I would like to thank our shareholders and customers who supported us through this transitional year as well as our dedicated team of employees whose perseverance enabled us to achieve our goals ahead of schedule and whose sights are aimed on building an even brighter future for Skyworks.

I look forward to reporting on our progress throughout the upcoming year.



David J. Aldrich  
President and Chief Executive Officer  
January 15, 2003



CONSOLIDATED FINANCIAL STATEMENTS

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

From the radio to the baseband, we have developed one of the industry's broadest product portfolio including leadership switches and power amplifier modules. Additionally, we offer a highly integrated direct conversion transceiver and have launched a comprehensive cellular system for next generation handsets.

With our extensive portfolio and significant systems-level expertise, Skyworks is the ideal partner for both top-tier wireless manufacturers and new market entrants who demand simplified architectures, faster development cycles and fewer overall suppliers.

Skyworks was formed through the merger ("Merger") of the wireless communications business of Conexant Systems, Inc. ("Conexant") and Alpha Industries, Inc. ("Alpha") on June 25, 2002. Following the Merger, Alpha changed its corporate name to Skyworks Solutions, Inc. We are headquartered in Woburn, Massachusetts, and have executive offices in Irvine, California. We have design, engineering, manufacturing, marketing, sales and service facilities throughout North America, Europe, and the Asia/Pacific region. Our Internet address is [www.skyworksinc.com](http://www.skyworksinc.com). We make available on our Internet website free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as practicable after we electronically file such material with the SEC. The information contained in our website is not incorporated by reference in this Annual Report.

#### RECENT DEVELOPMENTS

On November 13, 2002, Skyworks successfully closed a private placement of \$230 million of 4.75 percent convertible subordinated notes due 2007. These notes can be converted into 110.4911 shares of common stock per \$1,000 principal balance, which is the equivalent of a conversion price of approximately \$9.05 per share. The net proceeds from the note offering were principally used to prepay debt owed to Conexant under a financing agreement entered into with Conexant immediately following the Merger. The payments to Conexant retired \$105 million of the \$150 million note relating to the purchase of Conexant's semiconductor assembly, module manufacturing and test facility located in Mexicali, Mexico, and certain related operations ("Mexicali Operations") and repaid the \$65 million principal amount outstanding as of November 13, 2002 under the loan facility, dissolving the \$100 million facility and resulting in the release of Conexant's security interest in the assets and properties of the Company.

In connection with the prepayment by the Company of \$105 million of the \$150 million note owed to Conexant relating to the purchase of the Mexicali Operations, the remaining \$45 million principal balance on the note was exchanged for new 15% convertible debt securities with a maturity date of June 30, 2005. These notes can be converted into the Company's common stock at a conversion rate based on the applicable conversion price, which is subject to adjustment based on, among other things, the market price of the Company's common stock. Based on this adjustable conversion price, the Company expects that the maximum number of shares that could be issued under the note is approximately 7.1 million shares, subject to adjustment for stock splits and other similar dilutive occurrences.

In addition to the retirement of \$170 million in principal amount of indebtedness owing to Conexant, we also retained approximately \$53 million of net proceeds of the private placement to support our working capital needs.

#### INDUSTRY BACKGROUND

We believe that cellular services and personal communications services are increasingly expanding to offer more than just traditional voice services, with emerging mobile communications technologies offering consumers and businesses wireless access to data and information across a wide range of applications. High-speed mobile access has the potential to dramatically enhance use of the Internet, thereby facilitating the growth of electronic commerce. At the center of these developments are the continuing evolution of the mobile phone and the corresponding growth of the wireless communications infrastructure.

The cellular handset market has grown considerably over the past five years with unit sales of approximately 400 million units in 2001, according to Gartner Dataquest, a market research firm, up 500% from 1996 levels. As additional wireless cellular capacity became available, an intensely competitive pricing environment for wireless services developed at the same time that lower-priced, feature-rich mobile phones were being introduced, contributing substantially to the growth of new subscribers. We expect this trend to continue, enabling further wireless expansion and increased market penetration worldwide. Market penetration measures the portion of users or subscribers within the entire population of a specified geographic area. In the United States, market research firm EMC forecasts a growth in wireless penetration from approximately 46% in 2001 to almost 75% by 2005. On a worldwide basis, market penetration of wireless phones was just 16% in 2001 and could approach 30% by 2005,

based on data from EMC. We believe that this anticipated dramatic market growth will create significant demand for wireless handsets as well as for wireless infrastructure equipment to meet future network capacity requirements.

New mobile phones with improved battery life and expanded features are being introduced at a rapid rate, made possible by significant technological advances that render earlier models obsolete after only one or two years. According to market research firm Strategy Analytics, roughly half of the 2001 worldwide cellular handset sales were replacements of previous models. We expect this replacement market to continue contributing to the growth of the digital cellular handset industry, led by the transition to next generation services, such as CDMA2000, GPRS and EDGE wireless standards, which support wireless data capacity. We anticipate that transition to third-generation services, which will enable even higher bandwidth applications, including streaming video, digital audio and digital camera functionality, should further bolster the replacement market. Additionally, in emerging markets where wireline infrastructure is inadequate or limited, we believe that digital wireless networks are providing a viable and economic alternative that can be rapidly deployed.

In response to this rapidly changing market, handset original equipment manufacturers, or OEMs, are significantly shortening product development cycles, seeking simplified architectures and streamlining manufacturing processes. Traditional OEMs are shifting to low-cost suppliers around the world. In turn, original design manufacturers and contract manufacturers, who lack RF and systems-level expertise, are entering the high volume mobile phone market to support OEMs as well as to develop handset platforms of their own. Original design manufacturers and contract manufacturers can manage low-cost manufacturing and assembly of handsets, freeing OEMs to focus on the higher value marketing and distribution aspects of their business. Established handset manufacturers and new market entrants alike are demanding complete semiconductor system solutions that include the radio frequency system, all baseband processing, protocol stack and user interface software, plus comprehensive reference designs and development platforms. With these solutions, traditional handset OEMs can accelerate time-to-market cycles with lower investments in engineering and system design. These solutions also enable original design manufacturers to enter the high volume handset market without the need to make significant investments in RF and systems-level expertise.

Similarly, cellular and personal communications services network operators are developing and deploying next generation services. These service providers are incorporating packet-switching capability in their networks to deliver data communications and Internet access to digital cellular and other wireless devices. Over the long-term, service providers are seeking to establish a global network that can be accessed by subscribers at any time, anywhere in the world and that can provide subscribers with multimedia services. To meet this goal, OEMs who supply wireless infrastructure base stations to network operators are increasingly relying on mobile communications semiconductor suppliers who can provide highly integrated radio frequency and mixed signal processing functionality.

Additionally, as service providers migrate cellular subscribers to data intensive next generation 2.5G and 3G applications, base stations that transmit and receive signals in the backbone of cellular and personal communications services systems will be under further capacity constraints. To meet the related demand, OEMs will be challenged to increase base station transceiver performance and functionality, while reducing size, power consumption and overall system costs.

We believe that these market trends create a potentially significant opportunity for a broad-based wireless semiconductor supplier with a comprehensive product portfolio supported by specialized wireless manufacturing process technologies and a full range of systems-level expertise.

## BUSINESS OVERVIEW

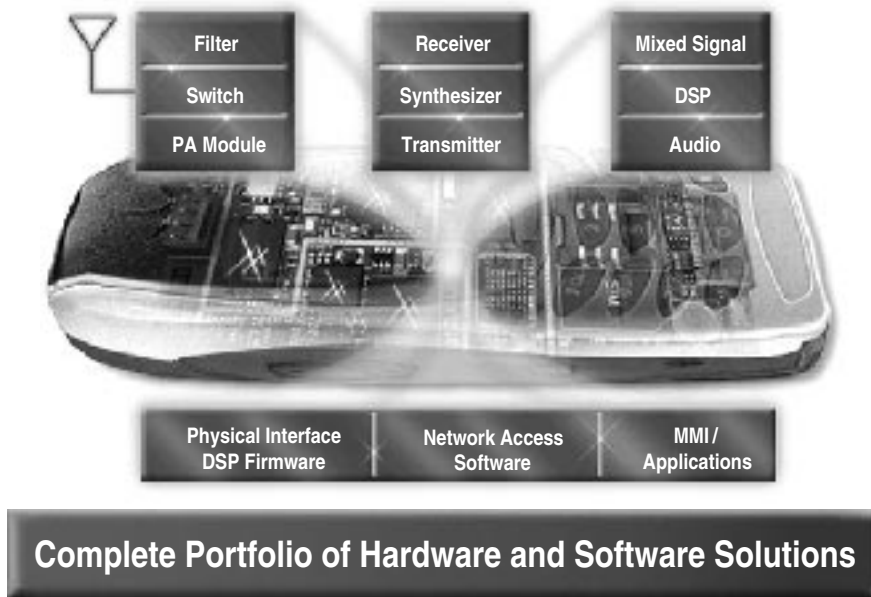
Skyworks is a leading wireless semiconductor company focused exclusively on RF and complete cellular system solutions for mobile communications applications. We offer front-end modules, RF subsystems and cellular systems to top wireless handset and infrastructure customers. Skyworks operates in one business segment, which designs, develops, manufactures and markets proprietary semiconductor products and system solutions for manufacturers of wireless communication products.

Skyworks possesses a broad wireless technology capability and one of the most complete wireless communications product portfolios, coupled with customer relationships with virtually all major handset and infrastructure manufacturers. Our product portfolio includes almost every key semiconductor found within a digital cellular handset, including:

- \_ switches and filters (components that switch signals and incorporate filtering functionality);
- \_ power amplifier (PA) modules (devices that amplify a signal to provide sufficient energy for it to reach the base station);

- \_ RF transceivers (devices that perform radio frequency transmit and receive functions);
- \_ synthesizers (devices used to tune to the correct channel to receive the RF signal from the base station);
- \_ mixed signal processors (devices that convert analog signals into digital signals);
- \_ digital signal processors (DSP) (digital devices that act as the cellular handset's central processor);
- \_ audio (components that enable voice communication);
- \_ physical interface DSP firmware (channel coding and equalization software);
- \_ network access software (protocol stack supporting encoding and decoding); and
- \_ MMI/applications (user interface software).

The following diagram illustrates our products that are used in a digital cellular handset:



Skyworks also offers a broad product portfolio addressing next generation wireless infrastructure applications, including amplifier drivers, ceramic resonators, couplers and detectors, filters, synthesizers and front-end receivers. These components support a variety of radio frequency and mixed signal processing functions within the wireless infrastructure.

We have a comprehensive radio frequency and mixed signal processing and packaging portfolio, extensive circuit design libraries and a proven track record in component and system design. We believe that these capabilities position us to address the growing need of wireless infrastructure manufacturers for base station products with increased transceiver performance and functionality with reduced size, power consumption and overall system costs.

#### OUR STRATEGY

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

##### Leveraging Core Technologies

Skyworks deploys technology building blocks such as radio frequency integrated circuits, analog/mixed-signal processing cores and digital baseband engines as well as software across multiple product platforms. We believe that

this approach enables creation of economies of scale in research and development and facilitates a reduction in the time-to-market for key products.

#### **Increasing Integration Levels**

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

#### **Capturing an Increasing Amount of Semiconductor Content**

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

#### **Diversifying Customer Base**

Skyworks supports virtually every wireless handset OEM including Motorola, Inc., Nokia Corporation, Samsung Electronics Co. and Sony/Ericsson as well as emerging original development manufacturers (ODMs) and contract manufacturers such as BenQ, Compal, Flextronics and Quanta. With the industry's move towards outsourcing, we believe that we are particularly well-positioned to address the growing needs of new market entrants who seek RF and system-level integration expertise.

#### **Delivering Operational Excellence**

The Skyworks operations team leverages best-in-class manufacturing technologies and enables highly integrated modules as well as system-level solutions. We are focused on achieving the industry's shortest cycle times, highest yields and ultimately the lowest cost structure.

#### **Building Industry Partnerships**

Skyworks will vertically integrate where it can differentiate or will otherwise enter alliances and partnerships for leading-edge capabilities. These partnerships and alliances are designed to ensure product leadership and competitive advantage in the marketplace. For example, we recently licensed LSI Logic's digital signal processor core to support future GSM/GPRS baseband products. Additionally, we work with Advanced Wireless Semiconductor Company (AWSC), Jazz Semiconductor, Inc. and United Microelectronics Corporation (UMC) on a foundry basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

### Overview

On December 16, 2001, Alpha, Conexant and Washington Sub, Inc. ("Washington"), a wholly owned subsidiary of Conexant, entered into a definitive agreement providing for the combination of Conexant's wireless business with Alpha. Under the terms of the agreement, Conexant would spin off its wireless business into Washington, including its gallium arsenide wafer fabrication facility located in Newbury Park, California, but excluding certain assets and liabilities, to be followed immediately by the Merger of this wireless business into Alpha with Alpha as the surviving entity in the Merger. The Merger was completed on June 25, 2002. Following the Merger, Alpha changed its corporate name to Skyworks Solutions, Inc.

Immediately following completion of the Merger, the Company purchased the Mexicali Operations for \$150 million. For financial accounting purposes, the sale of the Mexicali Operations by Conexant to Skyworks was treated as if Conexant had contributed the Mexicali Operations to Washington as part of the spin-off, and the \$150 million purchase price was treated as a return of capital to Conexant. Accordingly, our consolidated financial results include the assets, liabilities, operating results and cash flows of the Washington business and the Mexicali Operations for all periods presented, and also include the results of operations of Alpha from June 25, 2002, the date of acquisition. The Washington business and the Mexicali Operations are collectively referred to as Washington/Mexicali. References to the "Company" refer to Washington/Mexicali for all periods prior to June 26, 2002, and to the combined company following the Merger.

The Merger was accounted for as a reverse acquisition whereby Washington was treated as the acquirer and Alpha as the acquiree, primarily because Conexant shareholders owned a majority, approximately 67 percent, of the Company upon completion of the Merger. Under a reverse acquisition, the purchase price of Alpha was based upon the fair market value of Alpha common stock for a reasonable period of time before and after the announcement date of the Merger and the fair value of Alpha stock options. The purchase price of Alpha was allocated to the assets acquired and liabilities assumed by Washington, as the acquiring company for accounting purposes, based upon their estimated fair market value at the acquisition date. Because the Merger was accounted for as a purchase of Alpha, the historical financial statements of Washington/Mexicali became the historical financial statements of the Company after the Merger. Because the historical financial statements of the Company after the Merger do not include the historical financial results of Alpha for periods prior to June 26, 2002, the financial statements may not be indicative of future results of operations or the historical results that would have resulted if the Merger had occurred at the beginning of a historical financial period.

Alpha's independent accountant was KPMG LLP ("KPMG") and Washington/Mexicali's independent accountant was Deloitte & Touche LLP ("Deloitte & Touche"). KPMG has continued to serve as the Company's independent accountant after consummation of the Merger. Because the Merger was accounted for as a reverse acquisition, the financial statements of Washington/Mexicali constitute the financial statements of the Company as of the consummation of the Merger. Therefore, upon the consummation of the Merger on June 25, 2002, there was a change in the independent accountant for the Company's financial statements from Deloitte & Touche to KPMG, and accordingly, Deloitte & Touche was dismissed as the Company's independent accountant.

Skyworks' fiscal year ends on the Friday closest to September 30. Fiscal years 2002, 2001 and 2000 each comprised 52 weeks and ended on September 27, September 28 and September 29, respectively. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month. Accordingly, references to September 30, 2002, 2001 and 2000 contained in this discussion refer to the actual fiscal year-end of the Company.

Skyworks is a leading wireless semiconductor company focused on providing front-end modules, radio frequency subsystems and complete system solutions to wireless handset and infrastructure customers worldwide. We offer a comprehensive family of components and RF subsystems, and also provide complete antenna-to-microphone semiconductor solutions that support advanced 2.5G and 3G services.

We have entered into various agreements with Conexant providing for the supply of gallium arsenide wafer fabrication and assembly and test services to Conexant, initially at substantially the same volumes as historically obtained by Conexant from Washington/Mexicali. We have also entered into agreements with Conexant providing for the supply to us of transition services by Conexant and silicon-based wafer fabrication services by Jazz Semiconductor, Inc., a Newport Beach, California foundry joint venture between Conexant and The Carlyle Group to which Conexant contributed its Newport Beach wafer fabrication facility. Historically, Washington/Mexicali obtained a portion of its silicon-based semiconductors from the Newport Beach wafer fabrication facility. Pursuant to our supply agreement with Conexant, we are initially obligated to obtain certain minimum volume levels from Jazz Semiconductor based on a contractual agreement between Conexant and Jazz Semiconductor.

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

### **Critical Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting our consolidated financial statements are those relating to allowances for doubtful accounts, inventories, long-lived assets, income taxes, warranties, restructuring costs and other contingencies. We regularly evaluate our estimates and assumptions based upon historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent actual results differ from those estimates, our future results operations may be affected. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*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 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 non-distributor customers is recorded based on historical experience or specific identification of an event necessitating a reserve. Development revenue is recognized when services are performed and has not been significant for any of the periods presented.

*Inventories* – We assess the recoverability of inventories 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, we write down the value of those excess inventories. We sell our products to communications equipment OEMs that have designed our products into equipment such as cellular handsets. These design wins are gained through a lengthy sales cycle, which includes providing technical support to the OEM customer. Moreover, once a customer has designed a particular supplier's components into a cellular handset, substituting another supplier's components requires substantial design changes which involve significant cost, time, effort and risk. In the event of the loss of business from existing OEM customers, we may be unable to secure new customers for our existing products without first achieving new design wins. Consequently, when the quantities of inventory on hand exceed forecasted demand from existing OEM customers into whose products our products have been designed, we generally will be unable to sell our excess inventories to others, and the net realizable value of such inventories is generally estimated to be zero. 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. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

*Impairment of long-lived assets* – Long-lived assets, including fixed assets, goodwill and intangible assets, are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset 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. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to our business model or changes in our operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined using discounted cash flows.

*Deferred income taxes* – We have provided a valuation allowance related to our substantial United States deferred tax assets. If sufficient evidence of our ability to generate sufficient future taxable income in certain tax jurisdictions becomes apparent, we may be required to reduce our valuation allowance, which may result in income tax benefits in

our statement of operations. Reduction of a portion of the valuation allowance may be applied to reduce the carrying value of goodwill. The portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits may be applied to reduce goodwill related to the purchase consideration of the Merger is approximately \$24 million. We evaluate the realizability of the deferred tax assets and assess the need for a valuation allowance quarterly. In fiscal 2002, the Company recorded a tax benefit of approximately \$23 million related to the impairment of our Mexicali assets. A valuation allowance has not been established because the Company believes that the related deferred tax asset will be recovered during the carry forward period.

*Warranties* – Reserves for estimated product warranty costs are provided at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates and costs incurred to rework or replace defective products. Should actual product failure rates or costs differ from estimates, additional warranty reserves could be required, which could reduce our gross margins.

*Allowance for doubtful accounts* – We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

## Results of Operations

### *General*

In fiscal 2002, our revenues from product sales to third parties increased approximately 94% from fiscal 2001, as a result of renewed demand for our wireless product portfolio. The increased demand is partially due to reduction in the level of excess channel inventories that had adversely affected the digital cellular handset markets during fiscal 2001. Revenues attributable to Alpha, post Merger, included in fiscal 2002 were approximately \$36 million. During 2002 the Company consolidated facilities, reduced its work force and continued to implement cost saving initiatives. In addition, increased revenues and improved utilization of our manufacturing facilities contributed to an improvement in operating results in fiscal 2002. Cost of goods sold for fiscal 2002 was adversely affected by a charge of \$5.1 million in connection with expected losses for certain wafer fabrication commitments made under a supply agreement with Conexant whereby we are initially obligated to obtain certain minimum volume levels from Jazz Semiconductor, Inc. Cost of goods sold for fiscal 2002 also reflects approximately \$3.1 million of additional costs related to the Merger.

During fiscal 2001, we — like many of our customers and competitors — were adversely impacted by a broad slowdown affecting the wireless communications sector, including most of the end-markets for our products. Our net revenues for fiscal 2001 reflected deterioration in the digital cellular handset market resulting from excess channel inventories due to a slowdown in demand for mobile phones and a slower transition to next-generation phones. The effect of weakened end-customer demand was compounded by higher than normal levels of component inventories among manufacturer, subcontractor and distributor customers. The overall slowdown in the wireless communications markets also affected our gross margins and operating income. Cost of goods sold for fiscal 2001 was adversely affected by the significant underutilization of manufacturing capacity. Cost of goods sold for fiscal 2001 also reflects \$58.7 million of inventory write-downs across our product portfolio resulting from the sharply reduced end-customer demand for digital cellular handsets.

### *Expense Reduction and Restructuring Initiatives*

During fiscal 2002, the Company reduced its workforce through involuntary severance programs and recorded restructuring charges of approximately \$3.0 million for costs related to the workforce reduction and the consolidation of certain facilities. The charges were based upon estimates of the cost of severance benefits for affected employees and lease cancellation, facility sales, and other costs related to the consolidation of facilities. Substantially all amounts accrued for these actions are expected to be paid within one year.

In fiscal 2001, we implemented a number of expense reduction and restructuring initiatives to more closely align our cost structure with the then-current business environment. The cost reduction initiatives included workforce reductions, temporary shutdowns of manufacturing facilities and significant reductions in capital spending.

Through involuntary severance programs and attrition, we reduced our workforce in fiscal 2001 by approximately 250 employees (principally in our manufacturing operations). In addition, we periodically idled our Newbury Park, California wafer fabrication facility and, for a portion of fiscal 2001, implemented a reduced workweek at our Mexicali facility.

We recorded restructuring charges of \$2.7 million in fiscal 2001 related to the workforce reductions completed through September 30, 2001. The restructuring initiatives and other expense reduction actions resulted in a quarterly reduction of operating expenses of approximately \$4.8 million for the fourth quarter of fiscal 2001 as compared with the second quarter of fiscal 2001.

## *Asset Impairments*

During the third quarter of fiscal 2002, the Company recorded a \$66.0 million charge for the impairment of the assembly and test machinery and equipment and related facility in Mexicali, Mexico. The impairment charge was based on a recoverability analysis prepared by management as a result of a significant downturn in the market for test and assembly services for non-wireless products and the related impact on our current and projected outlook.

The Company experienced a severe decline in factory utilization at its Mexicali facility for non-wireless products and projected decreasing revenues and new order volume. Management believed these factors indicated that the carrying value of the assembly and test machinery and equipment and related facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Mexicali facility over a ten-year period. The estimated future cash flows were based on a gradual phase-out of services sold to Conexant and modest volume increases consistent with management's view of the outlook for the business, partially offset by declining average selling prices. The declines in average selling prices were consistent with historical trends and management's decision to reduce capital expenditures for future capacity expansion. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$100 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 24%, which management believed was commensurate with the underlying risks associated with the projected future cash flows. We believe the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write down established a new cost basis for the impaired assets.

During the third quarter of fiscal 2002, the Company recorded a \$45.8 million charge for the write-off of goodwill and other intangible assets associated with our May 2000 acquisition of Philsar Semiconductor Inc. ("Philsar"). Philsar was a developer of radio frequency semiconductor solutions for personal wireless connectivity, including emerging standards such as Bluetooth, and radio frequency components for third-generation (3G) digital cellular handsets. Management determined that the Company would not support the technology associated with the Philsar Bluetooth business. Accordingly, this product line has been discontinued and the employees associated with the product line have either been severed or relocated to other operations. As a result of the actions taken, management determined that the remaining goodwill and other intangible assets associated with the Philsar acquisition had been impaired.

Goodwill and intangible assets resulting from the Merger will be tested for impairment following the guidelines established in SFAS 142, which addresses financial accounting and reporting for acquired goodwill and other intangible assets. We will adopt SFAS 142 in the beginning of our 2003 fiscal year, and are required to perform a transitional impairment test for goodwill upon adoption. We may be required to record a substantial transitional impairment charge as a result of adopting SFAS 142. The carrying value of goodwill and intangible assets, subject to the transitional impairment test, is approximately \$907.5 million at September 30, 2002.

During the third quarter of fiscal 2001, the Company recorded an \$86.2 million charge for the impairment of the manufacturing facility and related wafer fabrication machinery and equipment at the Company's Newbury Park, California facility. This impairment charge was based on a recoverability analysis prepared by management as a result of the dramatic downturn in the market for wireless communications products and the related impact on the then-current and projected business outlook of the Company. Through the third quarter of fiscal 2001, the Company experienced a severe decline in factory utilization at the Newbury Park wafer fabrication facility and decreasing revenues, backlog, and new order volume. Management believed these factors, together with its decision to significantly reduce future capital expenditures for advanced process technologies and capacity beyond the then-current levels, indicated that the value of the Newbury Park facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Newbury Park facility over a ten-year period. The estimated future cash flows were based on modest volume increases consistent with management's view of the outlook for the industry, partially offset by declining average selling prices. The declines in average selling prices were consistent with historical trends and management's decision to focus on existing products based on the current technology. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$106 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 30%, which management believed was commensurate with the underlying risks associated with the projected cash flows. The Company believes the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write-down established a new cost basis for the impaired assets.



## Years Ended September 30, 2002, 2001 and 2000

The following table sets forth the results of our operations expressed as a percentage of net revenues for the fiscal years below:

	2002	2001	2000
Net revenues	100.0%	100.0%	100.0%
Cost of goods sold	72.4	119.6	71.4
Gross margin	27.6	(19.6)	28.6
Operating expenses:			
Research and development	29.0	42.6	24.2
Selling, general and administrative	11.0	19.7	13.9
Amortization of intangible assets	2.8	5.9	1.4
Purchased in-process research and development	14.3	—	6.4
Special charges	25.4	34.1	—
Total operating expenses	82.5	102.3	45.9
Operating loss	(54.9)	(121.9)	(17.3)
Other income (expense), net	(0.9)	0.1	—
Loss before income taxes	(55.8)	(121.8)	(17.3)
Provision (benefit) for income taxes	(4.3)	0.7	0.3
Net loss	<u>(51.6)%</u>	<u>(122.5)%</u>	<u>(17.6)%</u>

### Net Revenues

(in thousands)	Years Ended September 30,				
	2002	Change	2001	Change	2000
Net revenues:					
Third parties	\$418,344	94.1%	\$215,502	(31.1)%	\$312,983
Conexant	39,425	(12.3)%	44,949	(31.3)%	65,433
	<u>\$457,769</u>	<u>75.8%</u>	<u>\$260,451</u>	<u>(31.2)%</u>	<u>\$378,416</u>

We market and sell our semiconductor products and system solutions to leading OEMs of communication electronics products, third-party original design manufacturers, or ODMs, and contract manufacturers and indirectly through electronic components distributors. Samsung Electronics Co. accounted for 38%, 44% and 28% of net revenues from customers other than Conexant for the fiscal years ended September 30, 2002, 2001 and 2000 respectively. Motorola, Inc. accounted for 12% of net revenues from customers other than Conexant for the fiscal year ended September 30, 2002. Revenues derived from customers other than Conexant located in the Americas region decreased from 11% and 13% in 2001 and 2000, respectively, to 9% in fiscal 2002. Revenues derived from customers other than Conexant located in the Asia-Pacific region increased from 77% and 68% in 2001 and 2000, respectively, to 84% in fiscal 2002. Revenues derived from customers other than Conexant located in the Europe / Middle East / Africa region decreased from 12% and 19% in 2001 and 2000, respectively, to 7% in fiscal 2002. The foregoing percentages are based on sales representing Washington / Mexicali sales for the full fiscal year during 2002, 2001 and 2000 and including sales of Skyworks for the post-Merger period from June 26, 2002 through the end of the fiscal year.

We recognize revenues from product sales directly to our customers and to distributors upon shipment and transfer of title. Provision for sales returns is made at the time of sale based on experience. An insignificant portion of product sales are made to electronic component distributors under agreements allowing for price protection and / or a right of return on unsold products.

Revenues from product sales to customers other than Conexant, which represented 91%, 83% and 83% of total net revenues for the fiscal years 2002, 2001 and 2000, respectively, increased 94% in 2002 principally reflecting increased sales of GSM products, including power amplifier modules and complete cellular systems. We also experienced increased demand for our power amplifier modules for CDMA and TDMA applications from a number of our key customers. Revenues attributable to Alpha, post Merger, included in fiscal 2002 were approximately \$36 million. Revenues from product sales to customers other than Conexant decreased 31% when comparing fiscal 2001 to fiscal 2000 principally resulting from the significant decrease in demand throughout the industry during this period.

Revenues from wafer fabrication and semiconductor assembly and test services provided to Conexant represented 9%, 17% and 17% of total revenues for fiscal 2002, 2001 and 2000, respectively. The decrease in 2002 when compared to the prior years is primarily attributable to lower demand for assembly and test services from Conexant's

Mindspeed Technologies and broadband access businesses due to the broad slowdown affecting most of the communications electronics end-markets for Conexant's products.

### Gross Margin

(in thousands)	Years Ended September 30,		
	2002	2001	2000
Gross margin:			
Third parties	\$124,195	\$(53,247)	\$105,533
Percent of net revenues from third parties	30%	(25)%	34%
Conexant	\$ 1,966	\$ 2,195	\$ 2,713
Percent of net revenues from Conexant	5%	5%	4%

Gross margin 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, warranties and sustaining engineering expenses pertaining to products sold. Cost of goods sold also includes allocations from Conexant through June 25, 2002 of manufacturing cost variances, process engineering and other manufacturing costs which are not included in our unit costs but are expensed as incurred.

The improvement in gross margin from third party sales for fiscal 2002, compared with fiscal 2001, reflects increased revenues, improved utilization of our manufacturing facilities and a decrease in depreciation expense that resulted from the write-down of the Newbury Park wafer fabrication assets in the third quarter of fiscal 2001 and the Mexicali facility assets in the third quarter of 2002. The effect of the write-down of the Newbury Park wafer fabrication assets and the Mexicali facility assets on fiscal 2002 gross margin was approximately \$10.5 million and \$5.5 million, respectively. Although recent revenue growth has increased the level of utilization of our manufacturing facilities, these facilities continue to operate below optimal capacity and underutilization continues to adversely affect our unit cost of goods sold and gross margin. Gross margin for fiscal 2002 was also adversely impacted by additional warranty costs of \$14.0 million. The additional warranty costs were the result of an agreement with a major customer for the reimbursement of costs the customer incurred in connection with the failure of a product when used in a certain adverse environment. Although we developed and sold the product to the customer pursuant to mutually agreed-upon specifications, the product experienced unusual failures when used in an environment in which the product had not been previously tested. The product has since been modified and no additional costs are expected to be incurred in connection with this issue. In addition, under a wafer fabrication supply agreement with Conexant, we are initially obligated to obtain certain minimum volume levels from Jazz Semiconductor, Inc. based on a contractual agreement between Conexant and Jazz Semiconductor. We originally estimated our obligation under this agreement would result in excess costs of approximately \$13.2 million when recorded as a liability and charged to cost of sales in the third quarter of fiscal 2002. During the fourth quarter of fiscal 2002, we reevaluated this obligation and reduced our liability and cost of sales by approximately \$8.1 million in the quarter. Gross margin for the year ended September 30, 2002 benefited by approximately \$12.5 million as a result of the sale of inventories having a historical cost of \$12.5 million that were written down to a zero cost basis during fiscal year 2001; such sales resulted from sharply increased demand beginning in the fourth quarter of fiscal 2001 that was not anticipated at the time of the write-downs. Gross margin for fiscal 2001 was adversely affected by inventory write-downs of approximately \$58.7 million, partially offset by approximately \$4.5 million of subsequent sales of inventories written down to a zero cost basis.

The inventory write-downs recorded in fiscal 2001 resulted from the sharply reduced end-customer demand we experienced, primarily associated with our radio frequency components, as a result of the rapidly changing demand environment for digital cellular handsets during that period. As a result of these market conditions, we experienced a significant number of order cancellations and a decline in the volume of new orders, beginning in the fiscal 2001 first quarter and becoming more pronounced in the second quarter.

During fiscal 2002, we sold an additional \$12.5 million of inventories previously written down to a zero cost basis. As of September 30, 2002, we continued to hold inventories with an original cost of approximately \$5.4 million which were previously written down to a zero cost basis. We currently intend to hold these remaining inventories and will sell these inventories if we experience renewed demand for these products. While there can be no assurance that we will be able to do so, if we are able to sell a portion of the inventories that are carried at zero cost basis, our gross margins will be favorably affected. To the extent that we do not experience renewed demand for the remaining inventories, they will be scrapped as they become obsolete. Approximately \$1.8 million and \$34.5 million of inventories that were carried at zero cost basis were scrapped during fiscal 2002 and 2001, respectively.

Under supply agreements entered into with Conexant in connection with the Merger, we will receive wafer fabrication, wafer probe and certain other services from Jazz Semiconductor's Newport Beach, California foundry, and we will provide wafer fabrication, wafer probe, final test and other services to Conexant at our Newbury Park facility, in each case, for a three-year period after the Merger. We will also provide semiconductor assembly and test services to Conexant at our Mexicali facility.

During the term of one of our supply agreements with Conexant, our unit cost of goods supplied by Jazz Semiconductor Inc.'s Newport Beach foundry will continue to be affected by the level of utilization of the Newport Beach foundry joint venture's wafer fabrication facility and other factors outside our control. Pursuant to the terms of this supply agreement with Conexant, we are committed to obtain a minimum level of service from Jazz Semiconductor, Inc., a Newport Beach, California foundry joint venture between Conexant and The Carlyle Group to which Conexant contributed its Newport Beach wafer fabrication facility. We estimate that our obligation under this agreement will result in excess costs of approximately \$5.1 million and we have recorded this liability in the current period. In addition, our costs will be affected by the extent of our use of outside foundries and the pricing we are able to obtain. During periods of high industry demand for wafer fabrication capacity, we may have to pay higher prices to secure wafer fabrication capacity.

### **Research and Development**

(in thousands)	Years Ended September 30,				2000
	2002	Change	2001	Change	
Research and development	\$132,603	19%	\$111,053	21%	\$91,616
Percent of net revenues	29%		43%		24%

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. Research and development expenses also include allocated costs for shared research and development services provided by Conexant through June 25, 2002, principally in the areas of advanced semiconductor process development, design automation and advanced package development, for the benefit of several of Conexant's businesses.

The increase in research and development expenses in fiscal 2002 compared to fiscal 2001 primarily reflects the opening of a new design center in Le Mans, France and higher headcount and personnel-related costs. Subsequent to the first quarter of fiscal 2001, we expanded customer support engagements as well as development efforts targeting semiconductor solutions using the CDMA2000, GSM, General Packet Radio Services, or GPRS, and third-generation, or 3G, wireless standards in both the digital cellular handset and infrastructure markets.

During fiscal 2001, the Company focused its research and development investment principally on wireless communications applications such as next generation power amplifiers, radio frequency subsystems and cellular systems. In particular, the Company has focused a significant amount of research and development resources in developing complete network protocol stacks and user interface software in support of its cellular systems initiative. The increase in research and development expenses for fiscal 2001 primarily reflects higher headcount and personnel-related costs to support the Company's expanded development efforts and the accelerated launch of new products. The higher fiscal 2001 research and development expenses also include costs of approximately \$5.6 million resulting from the acquisition of Philsar in fiscal 2000.

Under transition services agreements with Conexant entered into in connection with the Merger, Conexant will continue to perform various research and development services for us at actual cost generally until December 31, 2002, unless the parties otherwise agree. To the extent we use these services subsequent to the expiration of the specified term, the pricing is subject to negotiation.

### **Selling, General and Administrative**

(in thousands)	Years Ended September 30,				2000
	2002	Change	2001	Change	
Selling, general and administrative	\$ 50,178	(2)%	\$ 51,267	(2)%	\$52,422
Percent of net revenues	11%		20%		14%

Selling, general and administrative expenses include personnel costs, sales representative commissions, advertising and other marketing costs. Selling, general and administrative expenses also include allocated general and administrative expenses from Conexant through June 25, 2002 for a variety of shared functions, including legal, accounting, treasury, human resources, real estate, information systems, customer service, sales, marketing, field application engineering and other corporate services.

The decrease in selling, general and administrative expenses in fiscal 2002 compared to fiscal 2001 and in fiscal 2001 compared to fiscal 2000 primarily reflects lower headcount and personnel-related costs resulting from the expense reduction and restructuring actions initiated during fiscal 2001 and lower provisions for uncollectible accounts receivable.

Under the transition services agreement, Conexant will continue to perform various services for us at actual cost until December 31, 2002, unless the parties otherwise agree. To the extent we use these services subsequent to the expiration of the specified term, the pricing is subject to negotiation.

### Amortization of Intangible Assets

(in thousands)	Years Ended September 30,				
	2002	Change	2001	Change	2000
Amortization of intangible assets	\$ 12,929	(15)%	\$ 15,267	nm	\$ 5,327
Percent of net revenues	3%		6%		1%

nm = not meaningful

In 2002, the Company recorded \$36.4 million of intangible assets related to the Merger consisting of developed technology, customer relationships and a trademark. These assets are being amortized over their estimated useful lives (principally ten years).

We will adopt SFAS 142 in the beginning of our 2003 fiscal year, and are required to perform a transitional impairment test for goodwill upon adoption. We may be required to record a substantial transitional impairment charge as a result of adopting SFAS 142. The carrying value of goodwill and intangible assets, subject to the transitional impairment test, is approximately \$907.5 million at September 30, 2002.

In connection with the fiscal 2000 acquisition of Philsar, we recorded an aggregate of \$78.2 million of identified intangible assets and goodwill. These assets have been amortized over their estimated useful lives (principally five years). During the third quarter of fiscal 2002, the Company recorded a \$45.8 million charge for the write-off of goodwill and other intangible assets associated with our acquisition of the Philsar Bluetooth business. Management has determined that the Company will not support the technology associated with the Philsar Bluetooth business. Accordingly, this product line has been discontinued and the employees associated with the product line have either been severed or relocated to other operations. As a result of the actions taken, management determined that the remaining goodwill and other intangible assets associated with the Philsar acquisition had been impaired. The Philsar write-off resulted in a decrease in amortization expense in fiscal 2002.

The increase in amortization of intangible assets in fiscal 2001 compared to fiscal 2000 is the result of the Philsar acquisition in 2000 and the associated amortization of the recorded goodwill and intangible assets that were related to this transaction.

### Purchased In-Process Research and Development

In connection with the Merger in the third quarter of fiscal 2002, \$65.5 million was allocated to purchased in-process research and development and expensed immediately upon completion of the acquisition (as a charge not deductible for tax purposes) because the technological feasibility of certain products under development had not been established and no future alternative uses existed.

Prior to the Merger, Alpha was in the process of developing new technologies in its semiconductor and ceramics segments. The objective of the in-process research and development effort was to develop new semiconductor processes, ceramic materials and related products to satisfy customer requirements in the wireless and broadband markets. The following table summarizes the significant assumptions underlying the valuations of the Alpha in-process research and development (IPR&D) at the time of acquisition.

(in millions)	Date Acquired	IPRD	Estimated costs to complete projects	Discount rate applied to IPRD
Alpha	June 25, 2002	\$65.5	\$10.3	30%

The semiconductor segment was involved in several projects that have been aggregated into the following categories based on the respective technologies:

#### Power Amplifier

Power amplifiers are designed and manufactured for use in different types of wireless handsets. The main performance attributes of these amplifiers are efficiency, power output, operating voltage and distortion. Current research and development is focused on expanding the offering to all types of wireless standards, improving performance by process and circuit improvements and offering a higher level of integration.

#### Control Products

Control products consist of switches and switch filters that are used in wireless applications for signal routing. Most applications are in the handset market enabling multi-mode, multi-band handsets. Current research and development is focused on performance improvement and cost reduction by reducing chip size and increasing functionality.

### *Broadband*

The products in this grouping consist of radio frequency (RF) and millimeter wave semiconductors and components designed and manufactured specifically to address the needs of high-speed, wireline and wireless network access. Current and long-term research and development is focused on performance enhancement of speed and bandwidth as well as cost reduction and integration.

### *Silicon Diode*

These products use silicon processes to fabricate diodes for use in a variety of RF and wireless applications. Current research and development is focused on reducing the size of the device, improving performance and reducing cost.

### *Ceramics*

The ceramics segment was involved in projects that relate to the design and manufacture of ceramic-based components such as resonators and filters for the wireless infrastructure market. Current research and development is focused on performance enhancements through improved formulations and electronic designs.

The material risks associated with the successful completion of the in-process technology are associated with the Company's ability to successfully finish the creation of viable prototypes and successful design of the chips, masks and manufacturing processes required. The Company expects to benefit from the in-process projects as the individual products that contain the in-process technology are put into production and sold to end-users. The release dates for each of the products within the product families are varied. The fair value of the in-process research and development was determined using the income approach. Under the income approach, the fair value reflects the present value of the projected cash flows that are expected to be generated by the products incorporating the in-process research and development, if successful.

The projected cash flows were discounted to approximate fair value. The discount rate applicable to the cash flows of each project reflects the stage of completion and other risks inherent in each project. The weighted average discount rate used in the valuation of in-process research and development was 30 percent. The IPR&D projects were expected to commence generating cash flows in fiscal 2003.

### *Special Charges*

#### *Asset Impairments*

During the third quarter of fiscal 2002, the Company recorded a \$66.0 million charge for the impairment of the assembly and test machinery and equipment and related facility in Mexicali, Mexico. The impairment charge was based on a recoverability analysis prepared by management as a result of a significant downturn in the market for test and assembly services for non-wireless products and the related impact on the Company's current and projected outlook.

The Company has experienced a severe decline in factory utilization at its Mexicali facility for non-wireless products and projected decreasing revenues and new order volume. Management believes these factors indicated that the carrying value of the assembly and test machinery and equipment and related facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Mexicali facility over a ten-year period. The estimated future cash flows were based on a gradual phase-out of services sold to Conexant and modest volume increases consistent with management's view of the outlook for the business, partially offset by declining average selling prices. The declines in average selling prices are consistent with historical trends and management's decision to reduce capital expenditures for future capacity expansion. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$100 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 24%, which management believed was commensurate with the underlying risks associated with the projected future cash flows. The Company believes the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write down established a new cost basis for the impaired assets.

During the third quarter of fiscal 2002, the Company recorded a \$45.8 million charge for the write-off of goodwill and other intangible assets associated with our fiscal 2000 acquisition of the Philips Bluetooth business. Management has determined that the Company will not support the technology associated with the Philips Bluetooth business. Accordingly, this product line will be discontinued and the employees associated with the product line have either

been severed or relocated to other operations. As a result of the actions taken, management determined that the remaining goodwill and other intangible assets associated with the Philips acquisition had been impaired.

During the third quarter of fiscal 2001, the Company recorded an \$86.2 million charge for the impairment of the manufacturing facility and related wafer fabrication machinery and equipment at the Company's Newbury Park, California facility. This impairment charge was based on a recoverability analysis prepared by management as a result of the dramatic downturn in the market for wireless communications products and the related impact on the then-current and projected business outlook of the Company. Through the third quarter of fiscal 2001, the Company experienced a severe decline in factory utilization at the Newbury Park wafer fabrication facility and decreasing revenues, backlog, and new order volume. Management believed these factors, together with its decision to significantly reduce future capital expenditures for advanced process technologies and capacity beyond the then-current levels, indicated that the value of the Newbury Park facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Newbury Park facility over a ten-year period. The estimated future cash flows were based on modest volume increases consistent with management's view of the outlook for the industry, partially offset by declining average selling prices. The declines in average selling prices are consistent with historical trends and management's decision to focus on existing products based on the current technology. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$106 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 30%, which management believed was commensurate with the underlying risks associated with the projected cash flows. The Company believes the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write-down established a new cost basis for the impaired assets.

#### *Restructuring Charges*

During fiscal 2002, the Company reduced its workforce through involuntary severance programs and recorded restructuring charges of approximately \$3.0 million for costs related to the workforce reduction and the consolidation of certain facilities. The charges were based upon estimates of the cost of severance benefits for affected employees and lease cancellation, facility sales, and other costs related to the consolidation of facilities. Substantially all amounts accrued for these actions are expected to be paid within one year.

During fiscal 2001, Washington/Mexicali reduced its workforce by approximately 250 employees, including approximately 230 employees in manufacturing operations. Restructuring charges of \$2.7 million were recorded for such actions and were based upon estimates of the cost of severance benefits for the affected employees. Substantially all amounts accrued for these actions are expected to be paid within one year.

Activity and liability balances related to the fiscal 2001 and fiscal 2002 restructuring actions are as follows (in thousands):

	Fiscal 2001 actions	Fiscal 2002 workforce reductions	Fiscal 2002 facility closings and other	Total
Charged to costs and expenses	\$ 2,667			
Cash payments	(1,943)			
Restructuring balance, September 30, 2001	724	\$ —	\$ —	\$ 724
Charged to costs and expenses	65	2,923	97	3,085
Cash payments	(789)	(2,225)	(13)	(3,027)
Restructuring balance, September 30, 2002	\$ —	\$ 698	\$ 84	\$ 782

In addition, the Company assumed approximately \$7.8 million of restructuring reserves from Alpha in connection with the Merger. On September 27, 2002 this balance was \$6.7 million and substantially all amounts accrued are expected to be paid within one year.

#### *Other Income (Expense), Net*

Other income (expense), net is comprised primarily of interest expense, interest income on invested cash balances, gains/losses on the sale of assets, foreign exchange gains/losses and other non-operating income and expense items. The decrease to \$4.3 million of other expense, net in fiscal 2002 from \$0.2 million of other income, net in fiscal 2001 is principally the result of approximately \$4.1 million of additional interest expense related to the short-term note to Conexant for the Mexicali facility purchase.

### *Provision for Income Taxes*

The net operating loss carryforwards and other tax benefits relating to the historical operations of Washington / Mexicali were retained by Conexant in the spin-off transaction, and will not be available to be utilized in our future separate tax returns. 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 and current year income tax benefits will not be realized except for certain future deductions associated with Mexicali in the post-spin-off period. Consequently, no United States income tax benefit has been recognized relating to the U.S. operating losses. As of September 30, 2002, 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 (benefit) for income taxes for fiscal 2002, 2001 and 2000 consists of foreign income taxes incurred by foreign operations. We do not expect to recognize any income tax benefits relating to future operating losses generated in the United States until management determines that such benefits are more likely than not to be realized. In 2002, the Company recorded a tax benefit of approximately \$23 million related to the impairment of our Mexicali assets.

### **Liquidity and Capital Resources**

Cash and cash equivalents at September 30, 2002, 2001 and 2000 totaled \$53.4 million, \$2.0 million and \$4.2 million, respectively. Working capital at September 30, 2002 was approximately \$79.8 million compared to \$60.5 million at September 30, 2001. Annualized inventory turns were approximately 6.9 for the fourth quarter of fiscal 2002. Additionally, days sales outstanding included in accounts receivable for the fourth quarter of fiscal 2002 was approximately 57 days.

Cash used in operating activities was \$99.1 million for fiscal 2002, reflecting a net loss of \$236.1 million, offset by non-cash charges (depreciation and amortization, asset impairments and an in-process research and development charge) of \$216.6 million and a net increase in the non-cash components of working capital of approximately \$79.6 million. During 2002 the Company consolidated facilities, reduced its work force and continued to implement cost saving initiatives. In addition, increased revenues and improved utilization of our manufacturing facilities contributed to improved operating results in fiscal 2002.

Cash provided by investing activities for fiscal 2002 consisted of capital expenditures of \$29.4 million and dividends to Conexant of \$3.1 million offset by cash received of \$67.1 million as a result of the Merger and \$35.4 million from the sale of short-term investments acquired in the Merger. The capital expenditures for fiscal 2002 reflect a significant reduction from annual capital expenditures in fiscal 2001, a key component of the cost reduction initiatives implemented in fiscal 2002.

Cash provided by financing activities for fiscal 2002 principally consisted of net transfers from Conexant, pre-Merger, of \$50.4 million and \$30.0 million of proceeds from borrowings against the revolving credit facility with Conexant.

On September 30, 2002, the Company had \$150 million in short-term promissory notes payable to Conexant pursuant to a financing agreement entered into in connection with the purchase of the Mexicali Operations. The notes were secured by the assets and properties of the Company. Unless paid earlier at the option of the Company or pursuant to mandatory prepayment provisions contained in the financing agreement with Conexant, fifty percent of the principal portion of the short-term promissory notes was due on March 24, 2003, and the remaining fifty percent of the notes was due on June 24, 2003. Interest on these notes was payable quarterly at a rate of 10% per annum for the first ninety days following June 25, 2002, 12% per annum for the next ninety days and 15% per annum thereafter. Because the Company refinanced these notes, the principal amount was classified on September 30, 2002 as a long-term note payable. In addition, on September 30, 2002 the Company had available a short-term \$100 million loan facility from Conexant under the financing agreement to fund the Company's working capital and other requirements. \$75 million of this facility became available on or after July 10, 2002, and the remaining \$25 million balance of the facility would have become available if the Company had more than \$150 million of eligible domestic receivables. The entire principal of any amounts borrowed under the facility was due on June 24, 2003. There were \$30 million of borrowings as of September 30, 2002 under this facility. Because the Company refinanced the amounts borrowed under this loan facility, the principal amount was classified on September 30, 2002 as a long-term note payable.

On November 13, 2002, Skyworks successfully closed a private placement of \$230 million of 4.75 percent convertible subordinated notes due 2007. These notes can be converted into 110.4911 shares of common stock per \$1,000 principal balance, which is the equivalent of a conversion price of approximately \$9.05 per share. The net proceeds from the note offering were principally used to prepay debt owed to Conexant under the financing agreement. The payments to Conexant retired \$105 million of the \$150 million note relating to the purchase of the Mexicali Operations and repaid the \$65 million principal amount outstanding as of November 13, 2002 under the loan facility, dissolving the \$100 million facility and resulting in the release of Conexant's security interest in all assets and properties of the Company.

In connection with the prepayment by the Company of \$105 million of the \$150 million note owed to Conexant relating to the purchase of the Mexicali Operations, the remaining \$45 million principal balance of the note was exchanged for new 15% convertible debt securities with a maturity date of June 30, 2005. These notes can be converted into the Company's common stock at a conversion rate based on the applicable conversion price, which is subject to adjustment based on, among other things, the market price of the Company's common stock. Based on this adjustable conversion price, the Company expects that the maximum number of shares that could be issued under the note is approximately 7.1 million shares, subject to adjustment for stock splits and other similar dilutive occurrences.

In addition to the retirement of \$170 million in principal amount of indebtedness owing to Conexant, Skyworks also retained approximately \$53 million of net proceeds of the private placement to support our working capital needs.

Cash used in operating activities was \$89.4 million and \$53.8 million for fiscal 2001 and 2000, respectively. Operating cash flows for fiscal 2001 and 2000 reflect net losses of \$318.9 million and \$66.5 million, respectively, offset by non-cash charges (depreciation and amortization, asset impairments and an in-process research and development charge) of \$220.8 million and \$98.1 million, respectively, and a net decrease in the non-cash components of working capital of approximately \$8.7 million and a net increase of \$85.4 million, respectively.

Cash used in investing activities for fiscal 2001 consisted of capital expenditures of \$51.1 million. The capital expenditures for fiscal 2002 reflect a significant reduction from annual capital expenditures in fiscal 2001, a key component of the cost reduction initiatives implemented in fiscal 2002. Cash used in investing activities for fiscal 2000 consisted of capital expenditures of \$100.4 million partially offset by cash received of \$7.7 million in the acquisition of Philsar. The capital expenditures for fiscal 2001 reflect a significant reduction from annual capital expenditures in fiscal 2000, a key component of the cost reduction initiatives implemented in fiscal 2001.

Cash provided by financing activities consisted of net transfers from Conexant of \$138.3 million and \$148.7 million for fiscal 2001 and 2000, respectively. Historically, Conexant has managed cash on a centralized basis. Cash receipts associated with Washington/Mexicali's business were generally collected by Conexant, and Conexant generally made disbursements on behalf of Washington/Mexicali.

During fiscal years 1998 through 2001, we made a series of capital investments which increased the capacity of our Newbury Park gallium arsenide wafer fabrication facility. We made these investments to support then-current and anticipated future growth in sales of our wireless communications products, such as power amplifiers, that use the gallium arsenide process. During the same period, we made a series of capital investments at our Mexicali facility to expand our integrated circuit assembly capacity, including the addition of assembly lines using surface mount technology processes for the production of multi-chip modules, which the Mexicali facility principally produces for us. The capital investments also increased the Mexicali facility's test capacity, including radio frequency capable equipment for testing wireless communications products. We invested in the Mexicali facility to support then-current and anticipated future growth in sales of our wireless communications products and to support increasing demand for assembly and test services from Conexant.

Capital investments for the Newbury Park wafer fabrication facility totaled \$0.7 million, \$27.3 million and \$35.5 million during fiscal 2002, fiscal 2001 and fiscal 2000, respectively. A significant portion of the fiscal 2001 capital investments were made to continue or complete capital investment programs that we had initiated during fiscal 2000. During the second quarter of fiscal 2001, in response to the broad slowdown affecting the wireless communications sector, including us and Conexant, we sharply curtailed our capital expenditure programs.

Although reduced capital expenditures are a key component of the cost reduction initiatives, 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.

Following is a summary of consolidated debt and lease obligations at September 30, 2002 (see Notes 5 and 9 of the consolidated financial statements), in thousands:

Obligation	Total	1-3 Years	4-5 Years	Thereafter
Debt	\$180,168	\$45,168	\$135,000	\$ —
Operating leases	40,215	19,350	9,212	11,653
Total debt and operating lease obligations	\$220,383	\$64,518	\$144,212	\$11,653

Under supply agreements entered into with Conexant in connection with the Merger, the Company's expected minimum purchase obligations will be approximately \$64 million, \$39 million and \$13 million in fiscal 2003, 2004 and 2005, respectively. These agreements are related to wafer fabrication, wafer probe and certain other services the Company will receive from Jazz Semiconductor's Newport Beach, California foundry. With the exception of \$5.1



million related to fiscal 2003 purchase obligations, which has been accrued in fiscal 2002, we currently anticipate meeting each of the annual minimum purchase obligations under the long-term supply agreement with Conexant.

Based on the closing of the private placement, the debt refinancing with Conexant and current trends, the Company expects to generate sufficient operating cash to meet our short-term and long-term cash requirements.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, short-term debt and long-term debt. Our main investment objective is the preservation of investment capital. Consequently, we invest with only high-credit-quality issuers and we limit the amount of our credit exposure to any one issuer. We do not use derivative instruments for speculative or investment purposes.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of September 27, 2002, the carrying value of our cash and cash equivalents approximates fair value.

Our long-term debt consists of a ten-year \$960,000 loan from the State of Maryland under the Community Development Block Grant program. Quarterly payments are due through December 2003 and represent principal plus interest at 5% of the unamortized balance. Our short-term debt on September 27, 2002 consists of the current portion of this loan. In addition, because we refinanced the note payable to Conexant for the acquisition of the Mexicali Operations and our loan facility with Conexant, the principal amount of \$180 million was classified as long-term debt on September 27, 2002. We do not believe that we have significant cash flow exposure on our short-term or long-term debt.

#### CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information relating to future results of Skyworks and other statements regarding matters that are not historical facts (including certain projections and business trends). Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates" or other comparable terms. All such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, and may affect our future operating results, financial position and cash flows.

These risks and uncertainties include, but are not limited to, the following: the failure to meet our expectations with respect to our future performance; the cyclical nature of the wireless communications semiconductor industry and the markets addressed by our products and our customers' products; general economic and business conditions that may adversely affect us or our suppliers, distributors or customers; pricing pressures and other competitive factors; demand for and market acceptance of new and existing products; successful development of new products and the timing of new product introductions; the availability and extent of utilization of manufacturing capacity and raw materials; fluctuations in manufacturing yields; complex and specialized manufacturing processes; product obsolescence; our ability to develop and implement new technologies and to obtain protection of the related intellectual property; our ability to attract and retain qualified personnel; our reliance on financial markets for future capital requirements; our dependence on third parties for the manufacture, assembly and testing of our products, and for the supply of raw materials; the impact of new accounting policies; our existing indebtedness and its effect on our cash flow; the disproportionate impact of our business relationships with large customers, and our reliance on international sales; the uncertainties of litigation; and other risks and uncertainties, including those detailed from time to time in our filings with the Securities and Exchange Commission, such as our Annual Report on Form 10-K for the fiscal year ended September 27, 2002.

These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

SELECTED FINANCIAL DATA

You should read the data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this Annual Report. The Company's fiscal year ends on the Friday closest to September 30. Fiscal years 2002, 2001 and 2000 each comprised 52 weeks and ended on September 27, September 28 and September 29, respectively. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month. The selected consolidated financial data set forth below as of September 30, 2002 and 2001 and for the fiscal years 2002, 2001 and 2000 have been derived from our audited consolidated financial statements and are included elsewhere in this Annual Report. The selected combined financial data set forth below as of September 30, 2000, 1999 and 1998 and for the fiscal years 1999 and 1998 have been derived from our combined financial statements that are not included in this Annual.

Because the Merger was accounted for as a reverse acquisition, a purchase of Alpha by Washington/Mexicali, the historical financial statements of Washington/Mexicali became the historical financial statements of Skyworks after the Merger. The historical information provided below does not include the historical financial results of Alpha for periods prior to June 25, 2002, the date the Merger was consummated. The historical financial information may not be indicative of the Company's future performance and does not reflect what the results of operations and financial position prior to the Merger would have been had Washington/Mexicali operated independently of Conexant during the periods presented prior to the Merger or had the results of Alpha been combined with those of Washington/Mexicali during the periods presented prior to the Merger.

(In thousands)	2002 (1)	Fiscal Year		1999	1998
	2001	2000			
<b>Statement of Operations Data:</b>					
<b>Net revenues:</b>					
Third parties	\$ 418,344	\$ 215,502	\$312,983	\$176,015	\$ 79,066
Conexant	39,425	44,949	65,433	40,400	33,205
Total net revenues	<u>457,769</u>	<u>260,451</u>	<u>378,416</u>	<u>216,415</u>	<u>112,271</u>
<b>Cost of goods sold (2):</b>					
Third parties	294,149	268,749	207,450	96,699	44,503
Conexant	37,459	42,754	62,720	37,840	33,350
Total cost of goods sold	<u>331,608</u>	<u>311,503</u>	<u>270,170</u>	<u>134,539</u>	<u>77,853</u>
Gross margin	126,161	(51,052)	108,246	81,876	34,418
<b>Operating expenses:</b>					
Research and development	132,603	111,053	91,616	66,457	56,748
Selling, general and administrative	50,178	51,267	52,422	27,202	21,211
Amortization of intangible assets (4)	12,929	15,267	5,327	—	—
Purchased in process research and development (5)	65,500	—	24,362	—	—
Special charges (3)	116,321	88,876	—	1,432	220
Total operating expenses	<u>377,531</u>	<u>266,463</u>	<u>173,727</u>	<u>95,091</u>	<u>78,179</u>
Operating loss	(251,370)	(317,515)	(65,481)	(13,215)	(43,761)
Interest expense	(4,227)	—	—	—	—
Other income (expense), net	(56)	210	142	(54)	1,559
Loss before income taxes	<u>(255,653)</u>	<u>(317,305)</u>	<u>(65,339)</u>	<u>(13,269)</u>	<u>(42,202)</u>
Provision (benefit) for income taxes	<u>(19,589)</u>	<u>1,619</u>	<u>1,140</u>	<u>1,646</u>	<u>1,082</u>
Net loss	<u>\$ (236,064)</u>	<u>\$ (318,924)</u>	<u>\$ (66,479)</u>	<u>\$ (14,915)</u>	<u>\$ (43,284)</u>
<b>Balance Sheet Data:</b>					
Working capital	\$ 79,769	\$ 60,540	\$135,649	\$ 55,374	\$ 17,831
Total assets	1,346,912	314,287	501,553	291,909	203,313
Long-term liabilities	184,309	3,806	3,767	3,335	2,063
Shareholders' equity	1,014,976	287,661	466,416	275,568	187,196

(1) The Merger was completed on June 25, 2002. Financial statements for periods prior to June 26, 2002 represent Washington/Mexicali's combined results and financial condition. Financial statements for periods after June 26, 2002 represent the consolidated results and financial condition of Skyworks, the combined company.

(2) In fiscal 2001, the Company recorded \$58.7 million of inventory write-downs.

(3) In fiscal 2002, the Company recorded special charges of \$116.3 million, principally related to the impairment of the assembly and test machinery and equipment and the related facility in Mexicali, Mexico, and the write-off of goodwill and other intangible assets related to the fiscal 2000 acquisition of Philips Semiconductor Inc. In fiscal 2001, the Company recorded special charges of \$88.9 million, principally related to the impairment of certain wafer fabrication assets and restructuring activities.

(4) In fiscal 2000, Philips Semiconductor Inc. was acquired and as a result of the acquisition, during fiscal 2002, 2001 and 2000, the Company recorded \$12.9 million, \$15.3 million and \$5.3 million, respectively, in amortization of goodwill and other acquisition-related intangible assets.

(5) In fiscal 2002 and fiscal 2000 the Company recorded purchased in-process research and development charges of \$65.5 million and \$24.4 million, respectively, related to the Merger and the acquisition of Philips Semiconductor Inc., respectively.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(In thousands, except per share amounts)	September 30,	
	2002	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 53,358	\$ 1,998
Receivables, net of allowance for doubtful accounts of \$1,324 and \$3,206	94,425	40,754
Inventories	55,643	37,383
Other current assets	23,970	3,225
Total current assets	227,396	83,360
Property, plant and equipment, less accumulated depreciation and amortization of \$305,709 and \$284,879	143,773	169,547
Goodwill and intangible assets, less accumulated amortization of \$915 and \$20,594	940,686	57,606
Deferred tax asset	22,487	—
Other assets	12,570	3,774
Total assets	\$1,346,912	\$314,287
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 129	\$ —
Accounts payable	45,350	2,653
Accrued compensation and benefits	17,585	12,363
Other current liabilities	84,563	7,804
Total current liabilities	147,627	22,820
Long-term debt, less current maturities	180,039	—
Long-term liabilities	4,270	3,806
Total liabilities	331,936	26,626
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, no par value: 25,000 authorized; no shares issued	—	—
Common stock, \$0.25 par value: 525,000 shares authorized; 137,589 shares issued and outstanding at September 30, 2002	34,397	—
Additional paid-in capital	1,150,856	—
Accumulated deficit	(170,193)	—
Unearned compensation, net of accumulated amortization of \$53	(84)	—
Conexant's net investment	—	287,661
Total stockholders' equity	1,014,976	287,661
Total liabilities and stockholders' equity	\$1,346,912	\$314,287

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

## Consolidated Statements of Operations

(in thousands, except per share amounts)	Years Ended September 30,		
	2002	2001	2000
<b>Net revenues:</b>			
Third parties	\$ 418,344	\$ 215,502	\$312,983
Conexant	39,425	44,949	65,433
Total net revenues	<u>457,769</u>	<u>260,451</u>	<u>378,416</u>
<b>Cost of goods sold:</b>			
Third parties	294,149	268,749	207,450
Conexant	37,459	42,754	62,720
Total cost of goods sold	<u>331,608</u>	<u>311,503</u>	<u>270,170</u>
Gross margin	126,161	(51,052)	108,246
<b>Operating expenses:</b>			
Research and development	132,603	111,053	91,616
Selling, general and administrative	50,178	51,267	52,422
Amortization of intangible assets	12,929	15,267	5,327
Purchased in-process research and development	65,500	—	24,362
Special charges	116,321	88,876	—
Total operating expenses	<u>377,531</u>	<u>266,463</u>	<u>173,727</u>
Operating loss	(251,370)	(317,515)	(65,481)
Interest expense	(4,227)	—	—
Other income (expense), net	(56)	210	142
Loss before income taxes	(255,653)	(317,305)	(65,339)
Provision (benefit) for income taxes	(19,589)	1,619	1,140
Net loss	<u>\$ (236,064)</u>	<u>\$ (318,924)</u>	<u>\$ (66,479)</u>
Pro forma net loss per share, basic and diluted (unaudited) (1)	<u>\$ (1.72)</u>		
Pro forma number of weighted-average shares used in per share computation (unaudited) (1)	<u>137,416</u>		

(1) See Note 2 to the consolidated financial statements

## Consolidated Statements Of Stockholders' Equity

(in thousands)	Common stock Shares	Common stock Par value	Additional Paid-in Capital	Conexant's Net Investment	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Unearned Compensation
Balance at							
September 30, 1999	—	—		275,746	(178)	—	—
Net loss	—	—		(66,479)	—	—	—
Foreign currency translation adjustment	—	—			126	—	—
Contribution of business acquired by Conexant	—	—		108,495	—	—	—
Net transfers from Conexant	—	—		148,706	—	—	—
Balance at							
September 30, 2000	—	—		466,468	(52)	—	—
Net loss	—	—		(318,924)	—	—	—
Foreign currency translation adjustment	—	—			(232)	—	—
Contribution of additional assets related to business acquired	—	—		2,058	—	—	—
Net transfers from Conexant	—	—		138,343	—	—	—
Balance at							
September 30, 2001	—	—		287,945	(284)	—	—
Net loss	—	—		(66,280)	—	(170,193)	—
Foreign currency translation adjustment	—	—		—	409	—	—
Net transfers from Conexant	—	—		50,404	—	—	—
Dividend (1)	—	—		(204,716)	—	—	—
Recapitalization as a result of purchase accounting under a reverse acquisition	137,368	34,342	1,149,965	(67,353)	(125)	—	(137)
Issuance of common shares to 401(k) plan	129	31	513	—	—	—	—
Exercise of stock options	26	7	35	—	—	—	—
Employee stock purchase plan	66	17	313	—	—	—	—
Amortization of unearned compensation	—	—	—	—	—	—	53
Compensation expense	—	—	30	—	—	—	—
Balance at							
September 30, 2002	137,589	\$34,397	\$1,150,856	\$ —	\$ —	\$(170,193)	\$ (84)

(1) The dividend to Conexant represents the payment for the Mexicali operations (\$150 million), the net assets retained by Conexant in connection with the spin-off, primarily accounts receivable net of accounts payable, and the assumption of certain Conexant liabilities by the Company.

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

## Consolidated Statements of Cash Flows

(In thousands)	Years Ended September 30,		
	2002	2001	2000
Cash flows from operating activities:			
Net loss	\$ (236,064)	\$ (318,924)	\$ (66,479)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	47,695	58,708	61,710
Amortization of intangible assets	12,878	15,267	5,327
Amortization of deferred compensation	53	—	—
Contribution of common shares to Savings and Retirement Plan	874	—	—
Compensation expense	30	—	—
Deferred income taxes	(23,117)	—	—
Provision for (recoveries of) losses on accounts receivable	(1,178)	(468)	3,538
Purchased in-process research and development charge	65,500	—	24,362
Inventory provisions	2,704	60,978	3,132
Asset impairments	111,817	86,209	—
Loss on sale of assets	209	80	4
Changes in assets and liabilities net of acquisition:			
Receivables	(84,924)	27,276	(39,846)
Inventories	(4,413)	(8,378)	(65,150)
Accounts payable	36,635	(2,547)	1,961
Accrued expenses and other current liabilities	(19,471)	(6,003)	14,210
Other	(8,322)	(1,604)	3,401
Net cash used in operating activities	<u>(99,094)</u>	<u>(89,406)</u>	<u>(53,830)</u>
Cash flows from investing activities:			
Capital expenditures	(29,412)	(51,118)	(100,424)
Cash and cash equivalents of acquired business	67,102	—	7,655
Sale of short-term investments	35,422	—	—
Dividend to Conexant	(3,070)	—	—
Net cash provided by (used in) investing activities	<u>70,042</u>	<u>(51,118)</u>	<u>(92,769)</u>
Cash flows from financing activities:			
Net transfers from Conexant	50,404	138,343	148,706
Short-term note to Conexant	30,000	—	—
Payments on notes payable	(34)	—	—
Exercise of stock options	42	—	—
Net cash provided by financing activities	<u>80,412</u>	<u>138,343</u>	<u>148,706</u>
Net increase (decrease) in cash and cash equivalents	51,360	(2,181)	2,107
Cash and cash equivalents at beginning of period	1,998	4,179	2,072
Cash and cash equivalents at end of period	<u>\$ 53,358</u>	<u>\$ 1,998</u>	<u>\$ 4,179</u>
Supplemental disclosure of non-cash activities:			
Acquisition of Alpha Industries, Inc.	<u>\$1,183,105</u>	<u>\$ —</u>	<u>\$ —</u>
Dividend to Conexant	<u>\$ 201,646</u>	<u>\$ —</u>	<u>\$ —</u>
Supplemental cash flow disclosures:			
Taxes paid	<u>\$ 832</u>	<u>\$ —</u>	<u>\$ —</u>
Interest paid	<u>\$ 323</u>	<u>\$ —</u>	<u>\$ —</u>

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

## Notes To Consolidated Financial Statements

### Note 1 Description of Business and Basis of Presentation

On December 16, 2001, Alpha Industries, Inc. ("Alpha"), Conexant Systems, Inc. ("Conexant") and Washington Sub, Inc. ("Washington"), a wholly owned subsidiary of Conexant, entered into a definitive agreement providing for the combination of Conexant's wireless business with Alpha. Under the terms of the agreement, Conexant would spin off its wireless business into Washington, including its gallium arsenide wafer fabrication facility located in Newbury Park, California, but excluding certain assets and liabilities, to be followed immediately by a merger (the "Merger") of this wireless business into Alpha with Alpha as the surviving entity in the merger. This merger was completed on June 25, 2002. Following the merger, Alpha changed its corporate name to Skyworks Solutions, Inc (the "Company", "Skyworks").

Immediately following completion of the Merger, the Company purchased Conexant's semiconductor assembly, module manufacturing and test facility located in Mexicali, Mexico, and certain related operations ("Mexicali Operations") for \$150 million. For financial accounting purposes, the sale of the Mexicali Operations by Conexant to Skyworks Solutions was treated as if Conexant had contributed the Mexicali Operations to Washington as part of the spin-off, and the \$150 million purchase price was treated as a return of capital to Conexant. The accompanying consolidated financial statements include the assets, liabilities, operating results and cash flows of the Washington business and the Mexicali Operations for all periods presented, and the results of operations of Alpha from June 25, 2002, the date of acquisition. For purposes of these combined financial statements, the Washington business and the Mexicali Operations are collectively referred to as Washington/Mexicali.

The Merger has been accounted for as a reverse acquisition whereby Washington was treated as the acquirer and Alpha as the acquiree, primarily because Conexant shareholders owned a majority, approximately 67 percent, of the Company upon completion of the merger. Under a reverse acquisition, the purchase price of Alpha was based upon the fair market value of Alpha common stock for a reasonable period of time before and after the announcement date of the Merger and the fair value of Alpha stock options. The purchase price of Alpha was allocated to the assets acquired and liabilities assumed by Washington, as the acquiring company for accounting purposes, based upon their estimated fair market value at the acquisition date. Because the Merger was accounted for as a purchase of Alpha, the historical financial statements of Washington/ Mexicali became the historical financial statements of the Company after the Merger. Since the historical financial statements of the Company after the Merger do not include the historical financial results of Alpha for periods prior to June 25, 2002, the financial statements may not be indicative of future results of operations or the historical results that would have resulted if the Merger had occurred at the beginning of a historical financial period.

The Company is a leading wireless semiconductor company focused on providing front-end modules, radio frequency (RF) subsystems, semiconductor components and complete system solutions to wireless handset and infrastructure customers worldwide. The Company offers a comprehensive family of components and RF subsystems, and also provides complete antenna-to-microphone semiconductor solutions that support advanced 2.5G and 3G services.

#### Basis of Presentation:

The combined financial statements prior to the Merger were prepared using Conexant's historical basis in the assets and liabilities and the historical operating results of Washington/Mexicali during each respective period. The Company believes the assumptions underlying the financial statements are reasonable. However, we cannot assure you that the financial information included herein reflects the combined assets, liabilities, operating results and cash flows of the Company in the future or what they would have been had Washington/Mexicali been a separate stand-alone entity and independent of Conexant during the periods presented.

Under purchase accounting, the operating results of the acquirer (Washington/Mexicali) are included for all periods being presented, whereas the operating results of the acquiree (Alpha) are included only after the date of acquisition (June 25, 2002) through the end of the period. Therefore, the historical financial information included herein does not necessarily reflect the combined assets, liabilities, operating results and cash flows of the Company in the future.

Conexant used a centralized approach to cash management and the financing of its operations. Cash deposits from Washington/Mexicali were transferred to Conexant on a regular basis and were netted against Conexant's net investment. As a result, none of Conexant's cash, cash equivalents, marketable securities or debt was allocated to Washington/Mexicali in the financial statements. Cash and cash equivalents in the financial statements, prior to the acquisition, represented amounts held by certain foreign operations of Washington/Mexicali. Changes in equity represented funding from Conexant for working capital and capital expenditure requirements after giving effect to Washington/ Mexicali's transfers to and from Conexant for its cash flows from operations through June 25, 2002.

Historically, Conexant provided financing for Washington/Mexicali and incurred debt at the parent level. The financial statements of Washington/Mexicali did not include an allocation of Conexant's debt or the related interest expense. Therefore, the financial statements do not necessarily reflect the financial position and results of operations of Washington/Mexicali had it been an independent company as of the dates, and for the periods, presented.

The financial statements also include allocations of certain Conexant operating expenses for research and development, legal, accounting, treasury, human resources, real estate, information systems, distribution, customer service, sales, marketing, engineering and other corporate services provided by Conexant, including executive salaries and other costs. The operating expense allocations have been determined on bases that management considered to be reasonable reflections of the utilization of services provided to, or the benefit received by, Washington/Mexicali. Management believes that the expenses allocated to Washington/Mexicali are representative of the operating expenses that would have been incurred had Washington/Mexicali operated as an independent company.

After the spin-off and the Merger, the Company is performing these functions using its own resources or purchased services, including services obtained from Conexant pursuant to a transition services agreement which expires on December 31, 2002 unless extended by mutual agreement.

## **Note 2 Summary of Significant Accounting Policies**

### *Principles of Consolidation:*

The financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Fiscal Year:*

The Company's fiscal year ends on the Friday closest to September 30. Fiscal years 2002, 2001 and 2000 each comprised 52 weeks and ended on September 27, September 28 and September 29, 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 generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to inventories, long-lived assets and income taxes. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

The combined financial statements have been prepared using Conexant's historical basis in the assets and liabilities and the historical operating results of Washington/Mexicali during each respective period. The Company believes the assumptions underlying the financial statements are reasonable. However, we cannot assure you that the financial information included herein reflects the combined assets, liabilities, operating results and cash flows of the Company in the future or what they would have been had Washington/Mexicali been a separate stand-alone entity and independent of Conexant during the periods presented.

### *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 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 non-distributor customers is recorded based on historical experience or specific identification of an event necessitating a reserve. Development revenue is recognized when services are performed and was not significant for any of the periods presented.

### *Research and Development Expenditures:*

Research and development costs are expensed as incurred.



### *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.

### *Bad Debt*

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 over 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.

### *Property, Plant and Equipment:*

Property, plant and equipment are carried at cost. Depreciation is calculated using the straight-line method for financial reporting and accelerated methods for tax purposes. Significant renewals and betterments are capitalized and replaced units are 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 life of the associated lease.

### *Goodwill and Intangible Assets:*

Goodwill and intangible assets are principally the result of the Merger with Washington/Mexicali completed on June 25, 2002 and a business acquisition completed in fiscal 2000. The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations as of July 1, 2001. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142, Goodwill and Other Intangible Assets, is adopted in full, are not amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized. Business acquisitions are accounted for by assigning the purchase price to tangible and intangible assets and liabilities, including purchased in-process research and development (IPRD) projects, which have not yet reached technological feasibility and have no alternative future use. Assets acquired and liabilities assumed are recorded at their estimated fair values; the excess of the purchase price over the net assets acquired is recorded as goodwill. The value of IPRD is immediately charged to expense upon completion of the acquisition. Developed technology, customer relationships and other intangibles are amortized on a straight-line basis over their estimated useful lives (principally 10 years).

### *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.

*Concentrations:*

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. Trade receivables are primarily derived from sales to manufacturers of communications and consumer products. Ongoing credit evaluations of customers' financial condition are performed and collateral, such as letters of credit and bank guarantees, are required whenever deemed necessary. The following customers accounted for 10% or more of trade receivables from customers other than Conexant:

	September 30,	
	2002	2001
Samsung Electronics Co.	27%	63%
Motorola, Inc.	—	13%

The following customers accounted for 10% or more of net revenues from customers other than Conexant:

	Years Ended September 30,		
	2002	2001	2000
Samsung Electronics Co.	38%	44%	28%
Motorola, Inc.	12%	—	—
Nokia Corporation	—	12%	—
Ericsson	—	—	18%
LG Electronics	—	—	10%

The foregoing percentages are based on sales representing Washington/Mexicali sales for the full fiscal year during 2002, 2001 and 2000 and including sales of Skyworks for the post-Merger period from June 26, 2002 through the end of the fiscal year.

*Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of:*

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

*Product Warranties:*

Warranties are offered on the sale of certain products and an accrual is recorded for estimated claims at the time of the sale. Such accruals are based on historical experience and management's estimate of future claims.

*Foreign Currency Translation and Remeasurement:*

The foreign operations of the Company are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency for our foreign operations is the U.S. dollar. 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 these remeasurements are included in income. Gains and losses resulting from foreign currency transactions are recognized currently in income.

*Stock Option Plans:*

The Company accounts for its stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations and provides disclosure related to its stock-based compensation under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

#### *Earnings Per Share:*

Prior to the Merger with Alpha Industries, Inc., Conexant's wireless business had no separate capitalization, therefore a calculation cannot be performed for weighted average shares outstanding to then calculate earnings per share. Basic earnings per share is calculated by dividing net income (loss) by the assumed weighted average number of common shares outstanding. Diluted earnings per share includes the dilutive effect of stock options, if their effect is dilutive, using the treasury stock method. Options to purchase approximately 31.3 million shares were outstanding but not included in the computation of diluted earnings per share as the net loss for the fiscal year ended September 30, 2002 would have made their effect anti-dilutive.

#### *Comprehensive (Loss) Income:*

The Company accounts for comprehensive (loss) income in accordance with the provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 is a financial statement presentation standard, which requires the Company to disclose non-owner changes included in equity but not included in net income or loss. Comprehensive loss presented in the combined financial statements of Conexant's net investment consists of Washington/Mexicali's net loss and foreign currency translation adjustments prior to the Merger. The foreign currency translation adjustments are not recorded net of any tax effect, as management does not expect to incur any tax liability or benefit related thereto. Accumulated other comprehensive loss, prior to the Merger, is included in Conexant's net investment in the combined balance sheets.

#### *Supplemental Cash Flow Information:*

Conexant made all income tax payments, prior to the Merger, on behalf of the Washington/Mexicali business.

#### *Recent Accounting Pronouncements:*

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangibles" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and eliminates the use of the pooling-of-interest method of accounting for business combinations. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. The Company has adopted the provisions of SFAS 141. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized into results of operations, but instead will be evaluated at least annually for impairment and written down when the recorded value exceeds the estimated fair value. The Company will adopt SFAS 142 in the beginning of fiscal 2003, and are required to perform a transitional impairment test for goodwill upon adoption. Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of October 1, 2002. The Company will then have up to six months from October 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations. The Company may be required to record a substantial transitional impairment charge as a result of

adopting SFAS 142. The carrying value of goodwill and intangible assets, subject to the transitional impairment test, is approximately \$907.5 million at September 30, 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes previous guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. Adoption of SFAS 144 is required no later than the beginning of fiscal 2003. Management does not expect the adoption of SFAS 144 to have a significant impact on our financial position or results of operations. However, future impairment reviews may result in charges against earnings to write down the value of long-lived assets.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statement No.'s 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections", effective for fiscal years beginning May 15, 2002 or later. It rescinds SFAS No. 4, "Reporting Gains and Losses From Extinguishments of Debt", SFAS No. 64, "Extinguishments of Debt to Satisfy Sinking-Fund Requirements", and SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement also amends SFAS No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The Company does not believe the impact of adopting SFAS No. 145 will have a material impact on its financial statements.

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement is effective for exit or disposal activities initiated after December 31, 2002. We are assessing the impact that adoption of SFAS No. 146 will have on our financial statements.

### **Note 3 Business Combinations**

#### **Merger with Conexant Systems, Inc.'s Wireless Business**

On December 16, 2001, Alpha, Conexant and Washington, a wholly owned subsidiary of Conexant, entered into a definitive agreement providing for the combination of Conexant's wireless business with Alpha. Under the terms of the agreement, Conexant would spin off its wireless business into Washington, including its gallium arsenide wafer fabrication facility located in Newbury Park, California, but excluding certain assets and liabilities, to be followed immediately by the Merger of this wireless business into Alpha with Alpha as the surviving entity in the Merger. The Merger was completed on June 25, 2002. Following the Merger, Alpha changed its corporate name to Skyworks Solutions, Inc.

Immediately following completion of the Merger, the Company purchased the Mexicali Operations for \$150 million. For financial accounting purposes, the sale of the Mexicali Operations by Conexant to Skyworks Solutions was treated as if Conexant had contributed the Mexicali Operations to Washington as part of the spin-off, and the \$150 million purchase price was treated as a return of capital to Conexant.

The Merger has been accounted for as a reverse acquisition whereby Washington was treated as the acquirer and Alpha as the acquiree, primarily because Conexant shareholders owned a majority, approximately 67 percent, of the Company upon completion of the Merger. Under a reverse acquisition, the purchase price of Alpha was based upon the fair market value of Alpha common stock for a reasonable period of time before and after the announcement date of the merger and the fair value of Alpha stock options. The purchase price of Alpha was allocated to the assets acquired and liabilities assumed by Washington, as the acquiring company for accounting purposes, based upon their estimated fair market value at the acquisition date. Because the Merger was accounted for as a purchase of Alpha, the historical financial statements of Washington/Mexicali became the historical financial statements of the Company after the merger. Since the historical financial statements of the Company after the Merger do not include the historical financial results of Alpha for periods prior to June 25, 2002, the financial statements may not be indicative of future results of operations or the historical results that would have resulted if the Merger had occurred at the beginning of a historical financial period.

In connection with the Merger, the Company identified duplicate facilities resulting in a write-down of fixed assets with historical carrying values of \$92.4 million to \$20.2 million, a reduction in workforce of approximately 210 employees at a cost of \$4.8 million and facility exit or closing costs of \$3.1 million. The effects of these actions are reflected in the purchase price allocation below.

The total purchase price was valued at approximately \$1.2 billion and is summarized as follows:

(in thousands)	
Fair market value of Alpha common stock	\$1,054,111
Fair value of Alpha stock options	95,388
Estimated transaction costs of acquirer	33,606
Total	<u>\$1,183,105</u>

The purchase price was allocated as follows:

(in thousands)	
Working capital	\$ 119,478
Property, plant and equipment	58,700
Amortized intangible assets	34,082
Unamortized intangible assets	2,300
Goodwill	905,219
In-process research and development	65,500
Long-term debt	(73)
Other long-term liabilities	(2,236)
Deferred compensation	135
Total	<u>\$1,183,105</u>

The allocation of the purchase price is subject to revision, which is not expected to be material, based on the final valuation of plant, property and equipment acquired.

The following unaudited pro forma financial information presents the consolidated operations of the Company as if the June 25, 2002 Merger had occurred as of the beginning of the periods presented. This information gives effect to certain adjustments including increased amortization of intangibles and increased interest expense related to debt issued in conjunction with the Merger. In-process research and development of \$65.5 million and other Merger-related expenses of \$28.8 million have been excluded from the pro forma results as they are non-recurring and not indicative of normal operating results. This information is provided for illustrative purposes only, and is not necessarily indicative of the operating results that would have occurred had the Merger been consummated at the beginnings of the periods presented, nor is it necessarily indicative of any future operating results.

(in thousands, except per share data)	Years Ended September 30,	
	2002	2001
Net revenue	\$ 543,091	\$ 458,352
Net loss	\$ (301,684)	\$ (328,981)
Net loss per share (basic and diluted)	<u>\$ (2.20)</u>	

In connection with the Merger in the third quarter of fiscal 2002, \$65.5 million was allocated to purchased in-process research and development and expensed immediately upon completion of the acquisition (as a charge not deductible for tax purposes) because the technological feasibility of certain products under development had not been established and no future alternative uses existed.

Prior to the Merger, Alpha was in the process of developing new technologies in its semiconductor and ceramics segments. The objective of the in-process research and development effort was to develop new semiconductor processes, ceramic materials and related products to satisfy customer requirements in the wireless and broadband markets. The following table summarizes the significant assumptions underlying the valuations of the Alpha in-process research and development (IPR&D) at the time of acquisition.

(in millions)	Date Acquired	IPRD	Estimated costs to complete projects	Discount rate applied to IPRD
Alpha	June 25, 2002	\$65.5	\$10.3	30%

The semiconductor segment was involved in several projects that have been aggregated into the following categories based on the respective technologies:

#### *Power Amplifier*

Power amplifiers are designed and manufactured for use in different types of wireless handsets. The main performance attributes of these amplifiers are efficiency, power output, operating voltage and distortion. Current

research and development is focused on expanding the offering to all types of wireless standards, improving performance by process and circuit improvements and offering a higher level of integration.

#### *Control Products*

Control products consist of switches and switch filters that are used in wireless applications for signal routing. Most applications are in the handset market enabling multi-mode, multi-band handsets. Current research and development is focused on performance improvement and cost reduction by reducing chip size and increasing functionality.

#### *Broadband*

The products in this grouping consist of radio frequency (RF) and millimeter wave semiconductors and components designed and manufactured specifically to address the needs of high-speed, wireline and wireless network access. Current and long-term research and development is focused on performance enhancement of speed and bandwidth as well as cost reduction and integration.

#### *Silicon Diode*

These products use silicon processes to fabricate diodes for use in a variety of RF and wireless applications. Current research and development is focused on reducing the size of the device, improving performance and reducing cost.

#### *Ceramics*

The ceramics segment was involved in projects that relate to the design and manufacture of ceramic-based components such as resonators and filters for the wireless infrastructure market. Current research and development is focused on performance enhancements through improved formulations and electronic designs.

The material risks associated with the successful completion of the in-process technology are associated with the Company's ability to successfully finish the creation of viable prototypes and successful design of the chips, masks and manufacturing processes required. The Company expects to benefit from the in-process projects as the individual products that contain the in-process technology are put into production and sold to end-users. The release dates for each of the products within the product families are varied. The fair value of the in-process research and development was determined using the income approach. Under the income approach, the fair value reflects the present value of the projected cash flows that are expected to be generated by the products incorporating the in-process research and development, if successful.

The projected cash flows were discounted to approximate fair value. The discount rate applicable to the cash flows of each project reflects the stage of completion and other risks inherent in each project. The weighted average discount rate used in the valuation of in-process research and development was 30 percent. The IPR&D projects were expected to commence generating cash flows in fiscal 2003.

#### **Conexant's Acquisition of Philsar Semiconductor Inc.**

In May 2000, Conexant acquired Philsar Semiconductor Inc. ("Philsar"), which became a part of Conexant's wireless communications business. This acquisition has been accounted for as a contribution to the wireless business by Conexant and such contribution has been recorded in Conexant's net investment in the combined financial statements. Philsar was a developer of radio frequency semiconductor solutions for personal wireless connectivity, including emerging standards such as Bluetooth, and radio frequency components for third-generation (3G) digital cellular handsets. To effect the acquisition of Philsar, all of the then-outstanding capital stock of Philsar was exchanged for Philsar securities exchangeable at the option of the holders into an aggregate of approximately 2.5 million shares of Conexant common stock (including 248,000 exchangeable shares issued in fiscal 2001 upon the expiration of an indemnification period). The outstanding Philsar stock options were converted into options to purchase an additional 525,000 shares of Conexant common stock.

The total value of the consideration for the Philsar acquisition was \$110.0 million. The value of the consideration paid was based on market prices of Conexant common stock at the time of announcement of the acquisition or, in the case of the additional consideration, at the time of resolution of the contingency. The value of the options converted (an average fair value of \$36.12 per share) was determined using the Black-Scholes option pricing model, based upon their various exercise prices (which ranged from \$5.47 to \$9.41) and remaining contractual lives (ranging from 1.4 to 9.8 years) and the following additional assumptions: estimated volatility of 60%, risk-free interest rate of 5.9% and no dividend yield). The value of the consideration has been allocated among the assets and liabilities acquired, including identified intangible assets and IPRD, based upon estimated fair values. The excess of the value of the consideration over the net assets acquired was allocated to goodwill. The tangible assets acquired totaled \$8.0 million, net of liabilities of \$2.2 million, and included \$7.7 million in cash. The total goodwill associated with this acquisition was \$71.4 million and such amount is not deductible for tax purposes.

In connection with the acquisition of Philsar, \$24.4 million was allocated to IPRD and expensed immediately upon completion of the acquisition (as a charge not deductible for tax purposes) because the technological feasibility of products under development had not been established and no future alternative uses existed. The fair value of the IPRD was determined using the income approach. Under the income approach, expected future after-tax cash flows from each of the projects or product families (projects) under development are estimated and discounted to their net present value at an appropriate risk-adjusted rate of return. Each project was analyzed to determine the technological innovations included in the project; the existence and utilization of core technology; the complexity, cost and time to complete the remaining development efforts; the existence of any alternative future use or current technological feasibility; and the stage of completion in development.

Future cash flows for each project used in the income approach were estimated based on forecasted revenues and costs, taking into account the expected life cycles of the products and the underlying technology, relevant market sizes and industry trends. The projected revenues used in the income approach were the revenues expected to be generated upon completion of the IPRD projects and the beginning of commercial sales, as estimated by management. The projections assume that the projects will be successful and that the products' development and commercialization meet management's estimated time schedule. The projected gross margins and operating expenses reflect the costs expected to be incurred for production, marketing, and ongoing development of the product families as estimated by management. The IPRD projects were expected to commence generating net cash inflows in fiscal 2001.

The projects were then classified as developed technology, IPRD or future development. The estimated future cash flows for each were discounted to approximate fair value. Discount rates of 30% for IPRD and 25% for developed technology were derived from a weighted-average cost of capital analysis, adjusted upward to reflect additional risks inherent in the development process, including the probability of achieving technological success and market acceptance. The IPRD charge includes the fair value of the portion of IPRD completed as of the date of acquisition. The fair values assigned to IPRD to-be-completed and future development are included in goodwill. Management is responsible for the amounts determined for IPRD, as well as developed technology, and believes the amounts are representative of fair values and do not exceed the amounts an independent party would pay for these projects.

The results of operations of Philsar are included in the combined financial statements from the date of acquisition. The pro forma combined statement of operations data for fiscal 2000 below assumes that the acquisition of Philsar had been completed as of the beginning of the fiscal year and includes amortization of goodwill and identified intangible assets from that date. However, the impact of the charge for IPRD has been excluded. This pro forma data is presented for informational purposes only, and is not necessarily indicative of the results of future operations nor of the results that would have been achieved had the acquisition of Philsar taken place at the beginning of fiscal 2000.

(Unaudited, in thousands)	<u>2000</u>
Net revenues	\$379,161
Net loss	\$(62,326)

During the third quarter of fiscal 2002, the Company recorded a \$45.8 million charge for the write-off of goodwill and other intangible assets associated with our fiscal 2000 acquisition of the Philsar Bluetooth business. Management has determined that the Company will not support the technology associated with the Philsar Bluetooth business. Accordingly, this product line will be discontinued and the employees associated with the product line have either been severed or relocated to other operations. As a result of the actions taken, management determined that the remaining goodwill and other intangible assets associated with the Philsar acquisition had been impaired.

#### Note 4 Supplemental Financial Statement Data

Inventories consisted of the following:

(in thousands)	September 30,	
	<u>2002</u>	<u>2001</u>
Raw materials	\$ 9,377	\$ 3,626
Work-in-process	32,639	19,164
Finished goods	13,627	14,593
	<u>\$55,643</u>	<u>\$37,383</u>

Cost of goods sold for fiscal 2001 includes inventory write-downs of \$58.7 million. These write-downs resulted from the sharply reduced end-customer demand experienced for digital cellular handsets in fiscal 2001. As a result of these market conditions, the Company experienced a significant number of order cancellations and a decline in the volume of new orders during fiscal 2001. The inventories written down during fiscal 2001 principally consisted of power amplifiers and radio frequency subsystem components which, in many cases, had been purchased or manufactured to satisfy expected customer demand.

The assessment of the recoverability of inventories, and the amounts of any write-downs, is based on currently available information and assumptions about future demand and the market conditions. Demand for products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

Some or all of the inventories which 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 which have been written-down and are identified as obsolete are generally scrapped.

Property, plant and equipment consist of the following:

(in thousands)	September 30,	
	2002	2001
Land	\$ 11,578	\$ 8,336
Land and leasehold improvements	6,583	11,730
Buildings	72,457	18,285
Machinery and equipment	341,702	396,268
Construction in progress	17,162	19,807
	<u>449,482</u>	<u>454,426</u>
Accumulated depreciation and amortization	<u>(305,709)</u>	<u>(284,879)</u>
	<u>\$ 143,773</u>	<u>\$ 169,547</u>

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

	September 30,	
	2002	2001
Goodwill	\$ 905,219	\$ 71,412
Developed technology	21,260	5,995
Customer relationships	12,700	—
Trademark	2,300	—
Other	122	793
	<u>941,601</u>	<u>78,200</u>
Accumulated depreciation and amortization	<u>(915)</u>	<u>(20,594)</u>
	<u>\$ 940,686</u>	<u>\$ 57,606</u>

Other current assets consist of the following (in thousands):

	September 30,	
	2002	2001
Prepaid expenses	\$ 17,050	\$ —
Other	6,920	3,225
	<u>\$ 23,970</u>	<u>\$ 3,225</u>

Other current liabilities consist of the following (in thousands):

	September 30,	
	2002	2001
Accrued merger expenses	\$ 42,764	\$ —
Product warranty accrual	13,372	3,414
Restructuring charges and exit costs	7,436	—
Accrued take or pay obligations	5,143	—
Other	15,848	4,390
	<u>\$ 84,563</u>	<u>\$ 7,804</u>



## Note 5 Borrowing Arrangements And Commitments

### Long-Term Debt

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

	September 30,	
	2002	2001
Conexant Mexicali note	\$ 150,000	\$ —
Conexant revolving credit line used	30,000	—
CDBG Grant	168	—
	<u>180,168</u>	<u>—</u>
Less — current maturities	129	—
	<u>\$ 180,039</u>	<u>\$ —</u>

On September 30, 2002, the Company had \$150 million in short-term promissory notes payable to Conexant pursuant to a financing agreement entered into in connection with the purchase of the Mexicali Operations. The notes were secured by the assets and properties of the Company. Unless paid earlier at the option of the Company or pursuant to mandatory prepayment provisions contained in the financing agreement with Conexant, fifty percent of the principal portion of the short-term promissory notes was due on March 24, 2003, and the remaining fifty percent of the notes was due on June 24, 2003. Interest on these notes was payable quarterly at a rate of 10% per annum for the first ninety days following June 25, 2002, 12% per annum for the next ninety days and 15% per annum thereafter. Because the Company refinanced these notes, the principal amount was classified on September 30, 2002 as a long-term note payable. In addition, on September 30, 2002 the Company had available a short-term \$100 million loan facility from Conexant under the financing agreement to fund the Company's working capital and other requirements. \$75 million of this facility became available on or after July 10, 2002, and the remaining \$25 million balance of the facility would have become available if the Company had more than \$150 million of eligible domestic receivables. The entire principal of any amounts borrowed under the facility was due on June 24, 2003. There were \$30 million of borrowings as of September 30, 2002 under this facility. Because the Company refinanced the amounts borrowed under this loan facility, the principal amount was classified on September 30, 2002 as a long-term note payable.

On November 13, 2002, Skyworks successfully closed a private placement of \$230 million of 4.75 percent convertible subordinated notes due 2007. These notes can be converted into 110.4911 shares of common stock per \$1,000 principal balance, which is the equivalent of a conversion price of approximately \$9.05 per share. The net proceeds from the note offering were principally used to prepay debt owed to Conexant under the financing agreement. The payments to Conexant retired \$105 million of the \$150 million note relating to the purchase of the Mexicali Operations and repaid the \$65 million principal amount outstanding as of November 13, 2002 under the loan facility, dissolving the \$100 million facility and resulting in the release of Conexant's security interest in all assets and properties of the Company.

In connection with the prepayment by the Company of \$105 million of the \$150 million note owed to Conexant relating to the purchase of the Mexicali Operations, the remaining \$45 million principal balance was exchanged for a new 15% convertible debt security with a maturity date of June 30, 2005. These notes can be converted into the Company's common stock at a conversion rate based on the applicable conversion price, which is subject to adjustment based on, among other things, the market price of the Company's common stock. Based on this adjustable conversion price, the Company expects that the maximum number of shares that could be issued under the note is approximately 7.1 million shares, subject to adjustment for stock splits and other similar dilutive occurrences.

The Company obtained a ten-year \$960,000 loan from the State of Maryland under the Community Development Block Grant program. Quarterly payments are due through December 2003 and represent principal plus interest at 5% of the unamortized balance.

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

Fiscal Year	
2003	\$ 129
2004	39
2005	45,000
2006	—
2007	<u>135,000</u>
	<u>\$180,168</u>

## Note 6 Income Taxes

Loss before income taxes consisted of the following components (in thousands):

	Years Ended September 30,		
	2002	2001	2000
United States	\$ (151,214)	\$ (323,642)	\$ (67,995)
Foreign	(104,439)	6,337	2,656
	<u>\$ (255,653)</u>	<u>\$ (317,305)</u>	<u>\$ (65,339)</u>

The provision for income taxes from continuing operations consists of the following (in thousands):

	Years Ended September 30,		
	2002	2001	2000
Current tax expense			
Federal	\$ —	\$ —	\$ —
Foreign	3,506	1,619	1,140
State	—	—	—
	<u>3,506</u>	<u>1,619</u>	<u>1,140</u>
Deferred tax expense (benefit)			
Federal	—	—	—
Foreign	(23,095)	—	—
State	—	—	—
	<u>(23,095)</u>	<u>—</u>	<u>—</u>
Net income tax expense (benefit)	<u>\$ (19,589)</u>	<u>\$ 1,619</u>	<u>\$ 1,140</u>

The actual income tax expenses (benefits) reported from operations are different than those which would have been computed by applying the federal statutory tax rate to income (loss) before income tax expenses (benefits). A reconciliation of income tax expense (benefit) as computed at the U.S. Federal statutory income tax rate to the provision for income tax expense (benefit) as follows (in thousands):

	Years Ended September 30,		
	2002	2001	2000
Tax (benefit) expense at U.S. statutory rate	\$ (89,479)	\$ (111,057)	\$ (22,869)
Foreign tax rate difference	3,529	(599)	210
Nondeductible amortization of intangible assets	16,151	5,099	1,752
Nondeductible in-process research and development	22,925	—	8,527
Pre-distribution loss not available to Skyworks	21,968	—	—
Research and development credits	(711)	(4,921)	(3,937)
State income taxes, net of federal benefit	—	(11,672)	(3,283)
Change in valuation allowance	5,947	123,466	19,870
Other, net	81	1,303	870
	<u>\$ (19,589)</u>	<u>\$ 1,619</u>	<u>\$ 1,140</u>

Deferred income tax assets and liabilities consist of the tax effects of temporary differences related to the following:

(in thousands)	September 30,	
	2002	2001
Current:		
Inventories	\$14,352	\$ 31,836
Deferred revenue	258	2,779
Accrued compensation and benefits	1,914	1,872
Product returns, allowances and warranty	8,097	3,686
Restructuring	5,475	—
Deferred state taxes	—	(1,822)
Other – net	523	1,470
Current deferred income taxes	<u>30,619</u>	<u>39,821</u>
Long-term:		
Property, plant and equipment	25,712	30,876
Intangible assets	(13,029)	(2,337)
Retirement benefits and deferred compensation	931	1,299
Net operating loss carryforwards	27,003	125,456
Federal tax credits	3,904	16,918
State investment credits	2,672	4,801
Restructuring	28,297	—
Deferred state taxes	—	(10,071)
Other – net	(416)	531
Long-term deferred income taxes	<u>75,074</u>	<u>167,473</u>
Total deferred income taxes	<u>105,693</u>	<u>207,294</u>
Valuation allowance	<u>(83,206)</u>	<u>(207,294)</u>
Net deferred tax assets	<u>\$22,487</u>	<u>\$ —</u>

Based upon a history of significant operating losses, management has determined that it is more likely than not that historic and current year income tax benefits will not be realized except for certain future deductions associated with the Mexicali Operations in the post-Merger period. Consequently, no United States income tax benefit has been recognized relating to the U.S. operating losses. As of September 30, 2002, we have established a valuation allowance against all of our net U.S. deferred tax assets. The net change in the valuation allowance is principally due to Conexant retaining certain tax attributes, i.e. federal and state net operating loss and credit carryovers. Reduction of a portion of the valuation allowance may be applied to reduce the carrying value of goodwill. The portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be applied to reduce goodwill related to the purchase consideration of the Merger with Alpha is approximately \$24 million. Deferred tax assets have been recognized for foreign operations when management believes they will be recovered during the carry forward period. We do not expect to recognize any income tax benefits relating to future operating losses generated in the United States until management determines that such benefits are more likely than not to be realized. In 2002, the Company recorded a tax benefit of approximately \$23 million related to the impairment of our Mexicali assets. A valuation allowance has not been established because the Company believes that the related deferred tax asset will be recovered during the carry forward period.

To the extent that Washington/Mexicali had filed separate tax returns as of September 30, 2001, the U.S. federal net operating loss carryforwards would have been approximately \$316.3 million, which would expire at various dates through 2021, and aggregate state net operating loss carryforwards would have been approximately \$295.3 million, which would expire at various dates through 2011. Washington/Mexicali would also have had U.S. Federal and state research and development tax credit carryforwards of approximately \$11.5 million and \$5.4 million, respectively. The U.S. Federal tax credits would expire at various dates through 2021, while the state credits would have no expiration date. California Manufacturers' Investment Credits of approximately \$4.8 million would expire at various dates through 2009. These tax attributes include certain amounts that were retained by Conexant and are not available to be utilized in the separate tax returns of the combined company subsequent to the Merger and the combined company's purchase of the Mexicali Operations.

The research and development credits and the net operating losses shown above that relate to periods prior to the Merger are calculated as if Washington/Mexicali had filed separate tax returns. These tax attributes include certain amounts that were retained by Conexant and are not available to be utilized in the separate tax returns of the combined company subsequent to the Merger and the combined company's purchase of the Mexicali Operations.

As of September 30, 2002, the Company has U.S. federal net operating loss carryforwards of approximately \$71.1 million which will expire at various dates through 2022 and aggregate state net operating loss carryforwards of approximately \$33.4 million which will expire at various dates through 2007. The Company also has U.S. federal and

state income tax credit carryforwards of approximately \$5.7 million. The U.S. federal tax credits expire at various dates through 2022. The use of the pre-Merger net operating loss and tax credit carryovers from Alpha will be limited due to statutory tax restrictions resulting from the Merger and related changes in ownership. The annual limit on the utilization of pre-merger net operating losses has been estimated at \$14 million. Pre-Merger credits would also be subject to the tax equivalent of the annual net operating loss limitation.

As part of the spin-off and the Merger, Washington, Conexant and Alpha entered into a tax allocation agreement which provides, among other things, for the allocation between Conexant and the combined company of certain tax liabilities relating to the Washington Business. In general, Conexant assumed and is responsible for tax liabilities of the Washington Business and Washington for periods prior to the Merger and the combined company has assumed and is responsible for tax liabilities of the Washington Business for periods after the Merger. Skyworks' obligations under the tax allocation agreement have been limited by the letter agreement dated November 6, 2002 entered into as part of the debt refinancing with Conexant.

## **Note 7 Stockholders' Equity**

### ***Common Stock***

The Company is authorized to issue (1) 525,000,000 shares of common stock, par value \$0.25 per share, and (2) 25,000,000 shares of preferred stock, without par value.

Holders of the Company's common stock are entitled to such dividends as may be declared by the Company's board of directors out of funds legally available for such purpose. Dividends may not be paid on common stock unless all accrued dividends on preferred stock, if any, have been paid or declared and set aside. In the event of the Company's liquidation, dissolution or winding up, the holders of common stock will be entitled to share pro rata in the assets remaining after payment to creditors and after payment of the liquidation preference plus any unpaid dividends to holders of any outstanding preferred stock.

Each holder of the Company's common stock is entitled to one vote for each such share outstanding in the holder's name. No holder of common stock is entitled to cumulate votes in voting for directors. The Company's second amended and restated certificate of incorporation provides that, unless otherwise determined by the Company's board of directors, no holder of common stock has any preemptive right to purchase or subscribe for any stock of any class which the Company may issue or sell.

At September 30, 2002 the Company had 137,589,146 shares of common stock issued and outstanding.

### ***Preferred Stock***

The Company's second amended and restated certificate of incorporation permits the Company to issue up to 25,000,000 shares of preferred stock in one or more series and with rights and preferences that may be fixed or designated by the Company's board of directors without any further action by the Company's stockholders. The designation, powers, preferences, rights and qualifications, limitations and restrictions of the preferred stock of each series will be fixed by the certificate of designation relating to such series, which will specify the terms of the preferred stock.

At September 30, 2002 the Company had no shares of preferred stock issued and outstanding.

### ***Stock Options***

The Company has stock option plans under which employees 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 four years and expire ten years after the grant date. As of September 27, 2002, a total of 24.1 million shares are authorized for grant under the Company's long-term incentive plans. The number of common shares reserved for granting of future awards was 15.9 million at September 30, 2002.

In connection with Conexant's spin-off of Washington, options to purchase shares of Conexant common stock were adjusted so that immediately following the spin-off, option holders held options to purchase shares of Conexant common stock and options to purchase Washington common stock. In connection with the Merger, those options to purchase shares of Washington common stock were converted into options to purchase the Company's common stock, par value \$0.25 per share. The terms of options to purchase the Company's common stock will be governed by the Washington Sub, Inc. 2002 Stock Option Plan, which was assumed by Skyworks in the Merger and which provides that such options will generally have the same terms and conditions applicable to the original Conexant options. These options are included in the following schedules and options related to non-employees are disclosed separately below.

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

	Shares	Weighted average exercise price of shares under plan
Balance outstanding prior to the close of the Merger	—	\$ —
Recapitalization as a result of the Merger:		
Alpha options assumed	8,277	18.97
Conexant options assumed	23,188	20.80
Balance outstanding at June 25, 2002	<u>31,465</u>	<u>\$20.32</u>
Granted	998	4.69
Exercised	(20)	2.08
Cancelled	<u>(1,111)</u>	<u>23.35</u>
Balance outstanding at September 30, 2002	<u>31,332</u>	<u>\$19.73</u>

Options exercisable at the end of each fiscal year (shares in thousands):

	Shares	Weighted average exercise price
2002	16,080	\$19.86

The following table summarizes information concerning currently outstanding and exercisable options as of September 30, 2002 (shares in thousands):

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average outstanding option price	Options exercisable	Weighted average exercise price
\$0.00 — \$9.99	4,056	6.5	\$ 6.15	1,529	\$ 5.18
\$10.00 — \$19.99	13,157	5.7	\$15.82	7,671	\$16.03
\$20.00 — \$29.99	10,333	6.7	\$21.97	5,025	\$21.83
\$30.00 — \$39.99	2,431	5.9	\$36.20	1,197	\$36.69
\$40.00 — \$59.99	1,111	7.1	\$45.05	525	\$45.11
\$60.00 — \$210.35	244	4.6	\$82.41	133	\$83.39
	<u>31,332</u>	<u>6.1</u>	<u>\$19.73</u>	<u>16,080</u>	<u>\$19.86</u>

#### **Restricted Stock Awards**

The Company's long-term incentive plans provide for awards of restricted shares of common stock and other stock-based incentive awards to officers and other employees and certain non-employees. Restricted stock awards are subject to forfeiture if employment terminates during the prescribed retention period (generally within two years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The fair value of restricted stock awards is charged to expense over the vesting period. There were no restricted stock grants in fiscal 2002.

#### **Stock Option Plans For Directors and Other Directors**

The Company has three stock option 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 826,000 shares have been authorized for option 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. 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 become exercisable 25% per year beginning one year from the date of grant. Options granted prior to fiscal 2001 become exercisable at a rate of 20% per year beginning one year from the date of grant. During fiscal 2002, 180,000 options were granted under these plans at a weighted average price \$6.31. At September 30, 2002, a total of 522,000 options, net of cancellations, have been granted under these three plans. During fiscal 2002, no options were exercised under these plans. At September 30, 2002, 522,000 shares were outstanding and 256,500 shares were exercisable. Non-employee directors of the Company are also eligible to receive option grants under the Company's 1996 Long-Term Incentive Plan.

### *Non-Employees Related to the Merger*

In connection with the Merger, as of September 30, 2002 non-employees, excluding directors, held 18,184,701 options at a weighted average price of \$20.49. Effective June 25, 2002, a significant portion of Conexant's options outstanding were converted to Skyworks' options of equivalent value. The conversion of Conexant options into Skyworks' options was done in such a manner that (1) the aggregate intrinsic value of the options immediately before and after the exchange is the same, (2) the ratio of the exercise price per option to the market value per option is not reduced, and (3) the vesting provisions and options period of the replacement Skyworks' options are the same as the original vesting terms and option period of the Conexant options.

### *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 six-month offering period. The plans provide for purchases by employees of up to an aggregate of 900,000 shares through December 31, 2006. The Company dissolved its employee stock purchase plan during the fourth quarter of fiscal 2002 and implemented a plan with substantially similar terms. Shares of 65,668 were purchased under this plan in fiscal 2002.

### *Accounting for Stock-Based Compensation*

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option and employee stock purchase plans. Had compensation cost for the Company's stock option and stock purchase plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock-based Compensation," the Company's net (loss) income would have been as follows:

Pro forma information regarding net loss is required by SFAS No. 123. This information is required to be determined as if stock-based awards to employees had been accounted for under the fair value method of that Statement. Had compensation cost for stock option awards to employees of the Company been determined based on the fair value at the grant date for awards in fiscal 2002 the pro forma net loss would have been approximately \$236.6 million.

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

	<u>2002</u>
Expected volatility	70%
Risk free interest rate	2.2%
Dividend yield	—
Expected option life (years)	4.5
Weighted average fair value of options granted	\$1.87

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

### **Stock Warrants**

In connection with the Merger, the Company issued to Jazz Semiconductor, Inc. a warrant to purchase 1,017,900 shares of Skyworks common stock at a price of \$24.02 per share. This warrant becomes exercisable in increments of 25% as of June 25, 2002, March 11, 2003, September 11, 2003 and March 11, 2004. The Company applied the Black-Scholes model to determine the fair value estimate and approximately \$0.2 million was included in fiscal 2002 selling, general and administrative expenses related to this item. The warrant expires on January 20, 2005.

### **Note 8 Employee Benefit Plan**

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 contributes a match of 100% of the first 4%. For fiscal 2002, the Company contributed 128,836 shares of the Company's common stock valued at \$0.6 million to fund the Company's obligation under the 401(k) plan in fiscal 2002.

Conexant sponsors various benefit plans for its eligible employees, including a 401(k) retirement savings plan, a retirement medical plan and a pension plan. Expenses allocated from Conexant under these employee benefit plans for Washington/Mexicali participants prior to the Merger were \$1.0 million for fiscal 2002 and \$1.3 million for both fiscal 2000 and 2001, respectively.

#### Note 9 Commitments

The Company has various operating leases primarily for computer equipment and buildings. Rent expense amounted to \$7.1 million, \$4.9 million and \$3.7 million in fiscal 2002, 2001 2000, respectively. Purchase options may be exercised at various times for some of these leases. Future minimum payments under these noncancelable leases are as follows (in thousands):

<u>Fiscal Year</u>	
2003	\$ 6,927
2004	6,799
2005	5,624
2006	4,755
2007	4,457
Thereafter	<u>11,653</u>
	<u>\$40,215</u>

Under supply agreements entered into with Conexant in connection with the Merger, we will receive wafer fabrication, wafer probe and certain other services from Jazz Semiconductor's Newport Beach, California foundry, and we will provide wafer fabrication, wafer probe, final test and other services to Conexant at our Newbury Park facility, in each case, for a three-year period after the Merger. We will also provide semiconductor assembly and test services to Conexant at our Mexicali facility.

During the term of one of our supply agreements with Conexant, our unit cost of goods supplied by Jazz Semiconductor Inc.'s Newport Beach foundry will continue to be affected by the level of utilization of the Newport Beach foundry joint venture's wafer fabrication facility and other factors outside our control. Pursuant to the terms of this supply agreement with Conexant, we are committed to obtain a minimum level of service from Jazz Semiconductor, Inc., a Newport Beach, California foundry joint venture between Conexant and The Carlyle Group to which Conexant contributed its Newport Beach wafer fabrication facility. The Company's expected minimum purchase obligations under the supply agreement will be approximately \$64 million, \$39 million and \$13 million in fiscal 2003, 2004 and 2005, respectively. The Company estimated its obligation under this agreement would result in excess costs of approximately \$13.2 million, which was recorded as a liability and charged to cost of sales in the third quarter of Fiscal 2002. During the fourth quarter of fiscal 2002, the Company reevaluated this obligation and reduced its liability and cost of sales by approximately \$8.1 million in the quarter. With the exception of \$5.1 million of The Company currently anticipates meeting each of the annual minimum purchase obligations under the supply agreement with Conexant.

#### Note 10 Contingencies

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company including those pertaining to product liability, intellectual property, environmental, safety and health, and employment matters. Management believes these are adequately provided for or will result in no significant additional liability to the Company.

On June 8, 2002 Skyworks Technologies, Inc. ("STI"), filed a complaint in the United States District Court, in the Central District of California, Southern Division, alleging trademark infringement, false designation of origin, unfair competition, and false advertising by the Company. Without a material impact to the financial statements, the Company reached an agreement on this matter with STI, which includes a release of all pending claims and an arrangement for mutual coexistence using the name Skyworks.

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 Company has assumed responsibility for all then current and future litigation (including environmental and intellectual property proceedings) against Conexant or its subsidiaries in respect of the operations of Conexant's wireless business in connection with the Merger.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that a license will be granted. Injunctive relief could materially and adversely affect the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted, and taking into account any reserves for such matters, management believes the disposition of such matters will not have a material adverse effect on the financial condition or results of operations of the Company.

## Note 11 Special Charges

### Asset Impairments

During the third quarter of fiscal 2002, the Company recorded a \$66.0 million charge for the impairment of the assembly and test machinery and equipment and related facility in Mexicali, Mexico. The impairment charge was based on a recoverability analysis prepared by management as a result of a significant downturn in the market for test and assembly services for non-wireless products and the related impact on the Company's current and projected outlook.

The Company has experienced a severe decline in factory utilization at its Mexicali facility for non-wireless products and projected decreasing revenues and new order volume. Management believes these factors indicated that the carrying value of the assembly and test machinery and equipment and related facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Mexicali facility over a ten-year period. The estimated future cash flows were based on a gradual phase-out of services sold to Conexant and modest volume increases consistent with management's view of the outlook for the business, partially offset by declining average selling prices. The declines in average selling prices are consistent with historical trends and management's decision to reduce capital expenditures for future capacity expansion. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$100 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 24%, which management believed was commensurate with the underlying risks associated with the projected future cash flows. The Company believes the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write down established a new cost basis for the impaired assets.

During the third quarter of fiscal 2002, the Company recorded a \$45.8 million charge for the write-off of goodwill and other intangible assets associated with our fiscal 2000 acquisition of the Philips Bluetooth business. Management has determined that the Company will not support the technology associated with the Philips Bluetooth business. Accordingly, this product line will be discontinued and the employees associated with the product line have either been severed or relocated to other operations. As a result of the actions taken, management determined that the remaining goodwill and other intangible assets associated with the Philips acquisition had been impaired.

During the third quarter of fiscal 2001, the Company recorded an \$86.2 million charge for the impairment of the manufacturing facility and related wafer fabrication machinery and equipment at the Company's Newbury Park, California facility. This impairment charge was based on a recoverability analysis prepared by management as a result of the dramatic downturn in the market for wireless communications products and the related impact on the then-current and projected business outlook of the Company. Through the third quarter of fiscal 2001, the Company experienced a severe decline in factory utilization at the Newbury Park wafer fabrication facility and decreasing revenues, backlog, and new order volume. Management believed these factors, together with its decision to significantly reduce future capital expenditures for advanced process technologies and capacity beyond the then-current levels, indicated that the value of the Newbury Park facility may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from the manufacturing activities at the Newbury Park facility over a ten-year period. The estimated future cash flows were based on modest volume increases consistent with management's view of the outlook for the industry, partially offset by declining average selling prices. The declines in average selling prices are consistent with historical trends and management's decision to focus on existing products based on the current technology. Since the estimated undiscounted cash flows were less than the carrying value (approximately \$106 million based on historical cost) of the related assets, it was concluded that an impairment loss should be recognized. The impairment charge was determined by comparing the estimated fair value of the related assets to their carrying value. The fair value of the assets was determined by computing the present value of the estimated future cash flows using a discount rate of 30%, which management believed was commensurate with the underlying risks associated with the projected cash flows. The Company believes the assumptions used in the discounted cash flow model represented a reasonable estimate of the fair value of the assets. The write-down established a new cost basis for the impaired assets.



### Restructuring Charges

During fiscal 2002, the Company reduced its workforce through involuntary severance programs and recorded restructuring charges of approximately \$3.0 million for costs related to the workforce reduction and the consolidation of certain facilities. The charges were based upon estimates of the cost of severance benefits for affected employees and lease cancellation, facility sales, and other costs related to the consolidation of facilities. Substantially all amounts accrued for these actions are expected to be paid within one year.

During fiscal 2001, Washington/Mexicali reduced its workforce by approximately 250 employees, including approximately 230 employees in manufacturing operations. Restructuring charges of \$2.7 million were recorded for such actions and were based upon estimates of the cost of severance benefits for the affected employees. Substantially all amounts accrued for these actions are expected to be paid within one year.

Activity and liability balances related to the fiscal 2001 and fiscal 2002 restructuring actions are as follows (in thousands):

	Fiscal 2001 actions	Fiscal 2002 workforce reductions	Fiscal 2002 facility closings and other	Total
Charged to costs and expenses	\$ 2,667			
Cash payments	(1,943)			
Restructuring balance, September 30, 2001	724	\$ —	\$ —	\$ 724
Charged to costs and expenses	65	2,923	97	3,085
Cash payments	(789)	(2,225)	(13)	(3,027)
Restructuring balance, September 30, 2002	\$ —	\$ 698	\$ 84	\$ 782

In addition, the Company assumed approximately \$7.8 million of restructuring reserves from Alpha in connection with the Merger. On September 27, 2002 this balance was \$6.7 million and substantially all amounts accrued are expected to be paid within one year.

### Note 12 Related Party Transactions

Historically, a significant portion of Conexant's semiconductor product assembly and test function has been performed by the Mexicali Operations. In addition, Conexant has purchased certain semiconductor products from the Newbury Park wafer fabrication facility included in Conexant's wireless business. Revenues and related costs of goods sold for products manufactured in the Newbury Park wafer fabrication facility and assembled and tested by the Mexicali Operations for Conexant have been separately presented in the combined statements of operations.

The Company has entered into various agreements with Conexant providing for the supply of gallium arsenide wafer fabrication and assembly and test services to Conexant, initially at substantially the same volumes as historically obtained by Conexant from Washington/Mexicali. The Company has also entered into agreements with Conexant providing for the supply to the Company of transition services by Conexant and silicon-based wafer fabrication services by Jazz Semiconductor, Inc., the Newport Beach, California foundry joint venture between Conexant and The Carlyle Group to which Conexant contributed its Newport Beach wafer fabrication facility. Historically, Washington/Mexicali has obtained a portion of its silicon-based semiconductors from the Newport Beach wafer fabrication facility. Pursuant to the supply agreement with Conexant, the Company is initially obligated to obtain certain minimum volume levels from Jazz Semiconductor based on a contractual agreement between Conexant and Jazz Semiconductor. The Company estimates that its minimum purchase obligation under this agreement will result in excess costs of approximately \$5.1 million and has recorded this liability and charged cost of sales in fiscal 2002.

Under transition services agreements with Conexant entered into in connection with the Merger, Conexant will continue to perform various research and development services for the Company at actual cost generally until December 31, 2002, unless the parties otherwise agree. To the extent the Company uses these services subsequent to the expiration of the specified term, the pricing is subject to negotiation.

### Note 13 Segment Information

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.

The Company has adopted 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.

#### Geographic Information

Net revenues from customers other than Conexant by geographic area are presented based upon the country of destination. Net revenues from customers other than Conexant by geographic area are as follows:

(In thousands)	Years Ended September 30,		
	2002	2001	2000
United States	\$ 32,760	\$ 18,999	\$ 32,726
Other Americas	4,615	5,455	8,146
Total Americas	37,375	24,454	40,872
South Korea	237,681	142,459	167,269
Other Asia-Pacific	114,974	23,898	46,255
Total Asia-Pacific	352,655	166,357	213,524
Europe, Middle East and Africa	28,314	24,691	58,587
	<u>\$ 418,344</u>	<u>\$ 215,502</u>	<u>\$ 312,983</u>

Long-lived assets principally consist of property, plant and equipment, goodwill and intangible assets. Long-lived assets by geographic area are as follows:

(In thousands)	September 30,	
	2002	2001
Assets		
United States	\$1,063,163	\$ 44,539
Mexico	52,730	126,730
Canada	387	58,373
Other	3,236	1,285
	<u>\$1,119,516</u>	<u>\$ 230,927</u>

#### Note 14 Quarterly Financial Data (unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2002					
Sales	\$ 93,760	\$ 100,356	\$ 112,980	\$150,673	\$ 457,769
Gross profit	15,954	29,433	20,063	60,711	126,161
Net loss	(34,297)	(18,339)	(181,945)	(1,483)	(236,064)
Per share data (1)					
Net loss basic	—	—	(1.33)	(0.01)	(1.72)
Net loss diluted	—	—	(1.33)	(0.01)	(1.72)
Fiscal 2001					
Sales	\$ 85,496	\$ 57,503	\$ 51,045	\$ 66,407	\$ 260,451
Gross profit	(7,020)	(46,426)	(12,414)	14,808	(51,052)
Net loss	(53,964)	(100,160)	(142,425)	(22,375)	(318,924)

(1) Earnings per share calculations for each of the quarters are based on the weighted average number of shares outstanding and included common stock equivalents in each period. Therefore, the sums of the quarters do not necessarily equal the full year earnings per share. Prior to the Merger with Alpha Industries, Inc., Conexant's wireless business had no separate capitalization, therefore a calculation cannot be performed for weighted average shares outstanding to then calculate earnings per share.

#### Note 15 Subsequent Event

On November 13, 2002, the Company successfully closed a private placement of \$230 million of 4.75 percent convertible subordinated notes due 2007. These notes can be converted into 110.4911 shares of common stock per \$1,000 principal balance, which is the equivalent of a conversion price of approximately \$9.05 per share. The net proceeds from the note offering were principally used to prepay debt owed to Conexant under a financing agreement entered into with Conexant immediately following the Merger. The payments to Conexant retired \$105 million of the \$150 million note relating to the purchase of the Mexicali Operations and repaid the \$65 million principal amount outstanding as of November 13, 2002 under the loan facility, dissolving the \$100 million facility and resulting in the release of Conexant's security interest in all assets and properties of the Company.

In connection with the prepayment by the Company of \$105 million of the \$150 million note owed to Conexant relating to the purchase of the Mexicali Operations, the remaining \$45 million principal balance on the note was exchanged for new 15% convertible debt securities with a maturity date of June 30, 2005. These notes can be converted into the Company's common stock at a conversion rate based on the applicable conversion price, which is subject to adjustment based on, among other things, the market price of the Company's common stock. Based on this adjustable conversion price, the Company expects that the maximum number of shares that could be issued under the note is approximately 7.1 million shares, subject to adjustment for stock splits and other similar dilutive occurrences.

In addition to the retirement of \$170 million in principal amount of indebtedness owing to Conexant, the Company also retained approximately \$53 million of net proceeds of the private placement to support its working capital needs.

I N D E P E N D E N T   A U D I T O R S '   R E P O R T

The Board of Directors and Stockholders  
Skyworks Solutions, Inc.:

We have audited the accompanying consolidated balance sheet of Skyworks Solutions, Inc. and subsidiaries as of September 30, 2002 and the related consolidated statement of operations, stockholders' equity and cash flows for the year then ended. We have also audited the financial statement schedule for the year ended September 30, 2002. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skyworks Solutions, Inc. and subsidiaries at September 30, 2002, and the results of their operations and their cash flows for the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for the year ended September 30, 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP  
Boston, Massachusetts  
November 15, 2002

I N D E P E N D E N T   A U D I T O R S '   R E P O R T

The Board of Directors and Stockholders  
Skyworks Solutions, Inc.:

We have audited the accompanying consolidated balance sheet of Skyworks Solutions, Inc. and subsidiaries (formerly the combined balance sheet of the Washington Business and the Mexicali Operations of Conexant Systems, Inc.) as of September 30, 2001, and the related consolidated statements of operations, stockholders' equity (formerly Conexant's net investment and comprehensive income), and cash flows for the years ended September 30, 2000 and 2001. Our audits also included the financial statement schedule listed in the Index at Item 15 for the years ended September 30, 2000 and 2001. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statements schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes addressing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skyworks Solutions, Inc. and subsidiaries (formerly the Washington Business and the Mexicali Operations of Conexant Systems, Inc.) at September 30, 2001, and the results of their operations and their cash flows for the years ended September 30, 2000 and 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP  
Costa Mesa, California  
February 14, 2002

MARKET FOR SKYWORKS' COMMON STOCK AND RELATED  
STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol SWKS. The following table sets forth the range of high and low sale prices for our common stock for the periods indicated. The merger of the wireless business of Conexant with Alpha and the acquisition of the Mexicali Operations ("Washington/Mexicali") was completed on June 25, 2002. Market price range information for periods on and after June 26, 2002 reflects sale prices for the common stock of the combined company, and market price range information for all periods on and prior to June 25, 2002 reflects prices for the common stock of Alpha on the Nasdaq National Market under the symbol AHAA. Washington/Mexicali was not publicly traded prior to the Merger. The number of stockholders of record of Skyworks as of December 4, 2002 was approximately 48,381.

Neither Skyworks nor its corporate predecessor, Alpha, have paid cash dividends on common stock since an Alpha dividend made in fiscal 1986, and Skyworks does not anticipate paying cash dividends in the foreseeable future. Our expectation is to retain all of our earnings to finance future growth.

	<u>High</u>	<u>Low</u>
Fiscal year ended September 27, 2002:		
First quarter	\$30.05	\$16.55
Second quarter	22.92	15.25
Third quarter, until June 25, 2002	16.97	5.56
Third quarter, on and after June 26, 2002	5.70	4.99
Fourth quarter	5.90	2.90
Fiscal year ended September 28, 2001:		
First quarter	\$54.00	\$24.75
Second quarter	35.94	13.94
Third quarter	29.70	13.56
Fourth quarter	40.36	18.72

## CORPORATE INFORMATION

### SENIOR MANAGEMENT TEAM

David J. Aldrich  
President and Chief Executive Officer

Paul E. Vincent  
Chief Financial Officer

Mohy Abdelgany  
Vice President, RF Systems

Kevin Barber  
Senior Vice President, Operations

Klaus Buehring  
Vice President, Power Amplifier  
Modules

David Fryklund  
Vice President, Switch and Control  
Products

Liam Griffin  
Vice President, Sales and Marketing

Richard Langman  
Vice President Wireless Infrastructure  
Products

George LeVan  
Vice President, Human Resources

Murthy Renduchintala  
Vice President, Cellular Systems

Nien-Tsu Shen  
Vice President, Quality

### BOARD OF DIRECTORS

Dwight W. Decker  
Chairman of the Board  
Chairman and Chief Executive Officer  
Conexant Systems, Inc.

David J. Aldrich  
President and Chief Executive Officer

Donald R. Beall  
Chairman of the Board  
Rockwell Collins, Inc.

Moiz M. Beguwala  
Senior Vice President and Special  
Advisor to the CEO  
Conexant Systems, Inc.

Timothy R. Furey  
Chief Executive Officer  
MarketBridge

Balakrishnan S. Iyer  
Senior Vice President and Chief  
Financial Officer  
Conexant Systems, Inc.

Thomas C. Leonard  
Chairman and Chief Executive Officer  
Alpha Industries, Inc., retired

David J. McLachlan  
Consultant to Genzyme Corporation's  
Chairman and CEO, Former Executive  
Vice President and Chief Financial  
Officer of Genzyme Corporation

### CORPORATE HEADQUARTERS

Skyworks Solutions, Inc.  
20 Sylvan Road  
Woburn, MA 01801  
(781) 376-3000  
[www.skyworksinc.com](http://www.skyworksinc.com)

### TRANSFER AGENT

AND REGISTRAR  
American Stock Transfer & Trust  
Company  
59 Maiden Lane  
New York, NY 10038  
(877) 366-6437 (U.S. and Canada)  
(212) 936-5100 (outside the U.S.)  
[www.amstock.com/shareholder](http://www.amstock.com/shareholder)

Our transfer agent can help you with a variety of shareholder related services including change of address, lost stock certificates, stock transfers, account status and other administrative matters.

### INVESTOR RELATIONS

You can contact the Skyworks Investor Relations team directly to order an Investor's Kit or to ask investment-oriented questions about Skyworks at:

Investor Relations  
Skyworks Solutions, Inc.  
5221 California Street  
Irvine, CA 92612  
(949) 231-4700

You can also view this Annual Report along with other financial-related information at: [www.skyworksinc.com](http://www.skyworksinc.com)

### ANNUAL MEETING

The annual meeting of shareholders will be held on March 10, 2003 in Burlington, Massachusetts.

### COMMON STOCK

Skyworks' common stock is traded on The Nasdaq Stock Market® under the symbol SWKS.

### INDEPENDENT ACCOUNTANTS

KPMG LLP  
Boston, Massachusetts

### LEGAL COUNSEL

Testa, Hurwitz & Thibault, LLP  
Boston, Massachusetts



**SKYWORKS**

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