ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this Annual Report on Form 10-K. In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially and adversely from those referred to herein due to a number of factors, including, but not limited to, those described below and in Item 1A "**Risk Factors**" and elsewhere in this Annual Report on Form 10-K.*

OVERVIEW

We, together with our consolidated subsidiaries, are empowering the wireless networking revolution. Our highly innovative analog semiconductors are connecting people, places, and things spanning a number of new and previously unimagined applications within the automotive, broadband, cellular infrastructure, connected home, industrial, medical, military, smartphone, tablet and wearable markets. Our key customers include Arris, Bose, Cisco, Dell, Ericsson, Foxconn, Fujitsu, General Electric, Google, Honeywell, HTC, Huawei, Landis & Gyr, Lenovo, LG Electronics, Microsoft, Nest, Netgear, Northrop Grumman, OPPO, Rockwell Collins, Samsung, Sonos, VIVO, and ZTE. Our competitors include Analog Devices, Broadcom, Maxim Integrated Products, Murata Manufacturing, NXP Semiconductors, QUALCOMM, and Qorvo.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED SEPTEMBER 30, 2016, OCTOBER 2, 2015, AND OCTOBER 3, 2014.

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

	September 30, 2016	October 2, 2015	October 3, 2014
Net revenue	100.0 %	100.0%	100.0%
Cost of goods sold	49.4	52.3	55.4
Gross profit	50.6	47.7	44.6
Operating expenses:			
Research and development	9.5	9.3	11.0
Selling, general and administrative	6.0	5.9	7.8
Amortization of intangibles	1.0	1.0	1.1
Restructuring and other charges	0.1	0.1	—
Total operating expenses	16.6	16.3	19.9
Operating income	34.0	31.4	24.7
Other (expense) income, net	(0.2)	—	—
Merger termination fee	2.7	—	—
Income before income taxes	36.5	31.4	24.7
Provision for income taxes	6.2	6.9	4.7
Net income	30.3 %	24.5%	20.0%

GENERAL

During the fiscal year ended September 30, 2016, the following key factors contributed to our overall results of operations, financial position and cash flows:

- Net revenue increased to approximately $3.3 billion, an increase of 1% as compared to the prior fiscal year. This increase in revenue was primarily related to our continued growth as smartphones displace traditional cellular phones, increased strength in emerging markets due to the adoption of 3G and 4G technologies, increases in applications for the Internet of Things, and the expansion of our analog product portfolio to address additional content within the handset and tablet markets as well as new vertical markets including automotive, industrial, medical and military, partially offset by decreased end-market demand for certain smartphone models.

- Our ending cash and cash equivalents balance increased 4% to approximately $1,084 million in fiscal 2016 from $1,044 million in fiscal 2015. This was the result of an approximately 10% increase in cash from operations to $1,096 million in fiscal 2016 from $993 million in fiscal 2015 due to higher net income, partially offset by changes in working capital. In addition, we returned approximately $726 million to shareholders through repurchasing eight million shares of our common stock for $526 million together with payments of $201 million in cash dividends. Lastly, we invested approximately $189 million in capital expenditures and $132 million related to business acquisition activity during the fiscal year.

NET REVENUE

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Net revenue	$ 3,289.0	0.9%	$ 3,258.4	42.2%	$ 2,291.5

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

The $30.6 million increase in revenue in fiscal 2016 as compared to fiscal 2015 was primarily driven by our ability to capture a higher share of the increasing RF and analog content per device as smartphones continue to displace traditional cellular phones, increased strength in emerging markets due to the adoption of 3G and 4G technologies, the increasing number of applications for the Internet of Things, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military. These increases were partially offset due to a decrease in demand during fiscal 2016 for our components from a key smartphone customer as a result of a decline in overall market demand for certain products.

The $966.9 million increase in revenue in fiscal 2015 as compared to fiscal 2014 was primarily driven by our ability to capture a higher share of the increasing RF and analog content per device due to more complex smartphones continuing to displace traditional cellular phones, increased strength in emerging markets due to the adoption of 3G and 4G technologies, the increasing popularity of tablet computing and wearables, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

For information regarding net revenue by geographic region and customer concentration, see Note 16 of Item 8 of this Annual Report on Form 10-K.

GROSS PROFIT

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Gross profit	$ 1,665.2	7.1%	$ 1,554.5	52.0%	$ 1,022.7
% of net revenue	50.6%		47.7%		44.6%

Gross profit represents net revenue less cost of goods sold. Our cost of goods sold consists primarily of purchased materials, labor and overhead (including depreciation and share-based compensation expense) associated with product manufacturing. Erosion of average selling prices of established products is typical of the semiconductor industry. Consistent with trends in the industry, we anticipate that average selling prices for our established products will continue to decline at a normalized rate of five to ten percent per year. As part of our normal course of business, we mitigate the gross margin impact of declining average selling prices with efforts to increase unit volumes, reduce material costs, improve manufacturing efficiencies, lower manufacturing costs of existing products and by introducing new and higher value-added products.

Gross profit was $110.7 million greater in fiscal 2016 as compared to fiscal 2015. The increase in gross profit was primarily the result of higher unit volumes and lower overall per-unit material and manufacturing costs, with an aggregate gross profit benefit of $177.4

million. These benefits were partially offset by the erosion of average selling price and changes in product mix that combined to negatively impact gross profit by $66.7 million. As a result of these impacts, gross profit margin increased to 50.6% of net revenue for fiscal 2016.

Gross profit was $531.8 million greater in fiscal 2015 as compared to fiscal 2014. The increase in gross profit was primarily the result of higher unit volumes, lower overall per-unit material and manufacturing costs with an aggregate gross profit benefit of $687.8 million. These benefits were partially offset by the erosion of average selling price, unfavorable changes in product mix and other costs that combined to negatively impact gross profit by $156.0 million. As a result of these impacts, gross profit margin increased to 47.7% of net revenue for fiscal 2015.

RESEARCH AND DEVELOPMENT

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Research and development	$ 312.4	3.0%	$ 303.2	20.2%	$ 252.2
% of net revenue	9.5%		9.3%		11.0%

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

The increase in research and development expense in fiscal 2016 as compared to fiscal 2015 is primarily related to increased product development-related expenses partially offset by a decrease in variable compensation expense, including share-based compensation. Research and development expense increased slightly as a percentage of net revenue due to the aforementioned factors.

The increase in research and development expense in fiscal 2015 as compared to fiscal 2014 is primarily related to increased employee compensation expense, including share-based compensation, of approximately $26.7 million and increased product development and other related expenses of approximately $24.3 million. Research and development expense decreased as a percentage of net revenue due to the aforementioned increase in net revenue.

SELLING, GENERAL AND ADMINISTRATIVE

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Selling, general and administrative	$ 195.9	2.4%	$ 191.3	6.8%	$ 179.1
% of net revenue	6.0%		5.9%		7.8%

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

The increase in selling, general and administrative expenses in fiscal 2016 as compared to fiscal 2015 was primarily related to legal and related costs and professional services costs incurred during the period, partially offset by decreased variable compensation expense, including share-based compensation. Selling, general and administrative expenses increased slightly as a percentage of net revenue due to the aforementioned factors.

The increase in selling, general and administrative expenses in fiscal 2015 as compared to fiscal 2014 was primarily related to increased compensation expense, including share-based compensation, and legal expenses related to acquisitions completed and contemplated during the period. Selling, general and administrative expenses decreased as a percentage of net revenue due to the aforementioned increase in net revenue.

AMORTIZATION OF INTANGIBLES

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Amortization of intangibles	$ 33.4	(0.3)%	$ 33.5	29.3%	$ 25.9
% of net revenue	1.0%		1.0%		1.1%

Amortization expense for fiscal 2016 is the result of intangible assets acquired during fiscal 2016, partially offset by the end of the estimated useful lives of certain fully amortized intangible assets that were acquired in prior fiscal years.

The increase in amortization expense for fiscal 2015 as compared to fiscal 2014 was primarily due to the intangible assets that were acquired in fiscal 2015 and fiscal 2014, partially offset by the end of the estimated useful lives of certain fully amortized intangible assets that were acquired in prior fiscal years.

RESTRUCTURING AND OTHER CHARGES

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Restructuring and other charges	$ 4.8	41.2%	$ 3.4	1,033.3%	$ 0.3
% of net revenue	0.1%		0.1%		—%

Restructuring and other charges incurred in fiscal 2016 are primarily related to restructuring plans to reduce redundancies associated with the acquisitions made during fiscal 2016. We do not anticipate any further significant charges associated with these restructuring activities and substantially all of the remaining cash payments related to these restructuring plans are expected to occur during the next fiscal year.

Restructuring and other charges incurred in fiscal 2015 are primarily related to severance costs associated with restructuring plans initiated during fiscal 2015.

MERGER TERMINATION FEE

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Merger termination fee	$ 88.5	100.0%	$ —	—%	$ —
% of net revenue	2.7%		— %		—%

On October 29, 2015, we entered into an Amended and Restated Agreement and Plan of Merger (the “Merger Agreement”) with PMC-Sierra, Inc. (“PMC”), providing for, subject to the terms and conditions of the Merger Agreement, our cash acquisition of PMC. On November 23, 2015, PMC notified us that it had terminated the Merger Agreement. As a result, on November 24, 2015, PMC paid us a termination fee of $88.5 million pursuant to the Merger Agreement.

PROVISION FOR INCOME TAXES

	Fiscal Years Ended				
(dollars in millions)	September 30, 2016	Change	October 2, 2015	Change	October 3, 2014
Provision for income taxes	$ 205.4	(8.8)%	$ 225.3	109.6%	$ 107.5
% of net revenue	6.2%		6.9%		4.7%

The annual effective tax rate for fiscal 2016 of 17.1% was less than the United States federal statutory rate of 35% primarily due to benefits of 13.7% related to foreign earnings taxed at a rate less than the United States federal rate, 1.6% related to a domestic production activities deduction, 2.8% related to the recognition of federal research and development tax credits, and 1.8% from the settlement of the Internal Revenue Service ("IRS") audit of our fiscal 2012 and 2013 income tax returns, partially offset by income tax rate expense impact of 1.6% related to a change in our tax reserves.

During fiscal 2016, we concluded an IRS examination of our federal income tax returns for fiscal years 2012 and 2013. We agreed to various adjustments to our fiscal year 2012 and 2013 tax returns that resulted in the recognition of current year tax expense of $2.6 million during fiscal 2016. With the conclusion of the audit, we decreased the reserve for uncertain tax positions, which resulted in the recognition of an income tax benefit of $24.0 million in fiscal 2016.

We operate under a tax holiday in Singapore, which is effective through September 30, 2020. This tax holiday is conditioned upon our compliance with certain employment and investment thresholds in Singapore. The impact of the tax holiday decreased the taxes we owe in Singapore by $30.8 million and $26.6 million for fiscal 2016 and fiscal 2015, respectively. This resulted in tax benefits of $0.16 and $0.14 of diluted earnings per share for fiscal 2016 and fiscal 2015, respectively.

The annual effective tax rate for fiscal 2015 of 22.0% was less than the United States federal statutory rate of 35% primarily due to benefits of 11.8% related to foreign earnings taxed at a rate less than the United States federal rate, 1.9% related to a domestic production activities deduction, and 1.5% related to the recognition of federal research and development tax credits, partially offset by income tax rate expense impact of 2.5% related to a change in our tax reserves.

LIQUIDITY AND CAPITAL RESOURCES

	Fiscal Years Ended		
(in millions)	September 30, 2016	October 2, 2015	October 3, 2014
Cash and cash equivalents at beginning of period	$ 1,043.6	$ 805.8	$ 511.1
Net cash provided by operating activities	1,095.7	992.8	772.4
Net cash used in investing activities	(250.9)	(454.7)	(357.1)
Net cash used in financing activities	(804.6)	(300.3)	(120.6)
Cash and cash equivalents at end of period	$ 1,083.8	$ 1,043.6	$ 805.8

Cash flow provided by operating activities:
Cash flow provided by operating activities consists of net income for the period adjusted for certain non-cash items and changes in certain operating assets and liabilities. For fiscal 2016, we generated $1,095.7 million in cash flow from operations, an increase of $102.9 million when compared to $992.8 million generated in fiscal 2015. The increase in cash flow from operating activities during the fiscal year ended September 30, 2016, was related to higher net income combined with a net cash inflow from changes in operating assets and liabilities. Specifically, the changes in operating assets and liabilities that were sources of cash were: $121.4 million in accounts receivable due to the timing of customer collections and $27.9 million primarily related to tax liabilities, payroll related accruals and other accrued expenses. These sources of cash were offset by uses of cash of: $181.5 million in accounts payable related to the timing of vendor payments, $147.3 million related to increased inventory primarily resulting from the insourcing and ramp of our filter business, and $20.4 million related to changes in other current and long-term assets.

Cash flow used in investing activities:
Cash flow used in investing activities consists primarily of capital expenditures and cash paid for acquisitions, net of cash acquired. Cash flow used in investing activities was $250.9 million during fiscal 2016, compared to $454.7 million during fiscal 2015. The decrease was primarily related to the prior year's expansion of our assembly and test facility in Mexicali, Mexico and the construction of a new filter fabrication facility in Osaka, Japan. Capital expenditures in fiscal 2016 primarily relate to the continuation of the aforementioned expansions of the facilities in Mexico and Japan, and to a lesser extent, to our wafer fabrication facilities in the United States. In addition, we paid $55.6 million in cash to complete two acquisitions and paid cash of $6.0 million to acquire intangible assets during the fiscal year.

Cash flow used in financing activities:
Cash flow used in financing activities consists primarily of cash transactions related to debt and equity. During fiscal 2016, we had net cash outflows of $804.6 million, compared to $300.3 million in fiscal 2015. The increase in cash used in financing activities primarily related to the increased share repurchase activity and dividend payments during fiscal 2016. During fiscal 2016 we had the following significant uses of cash:

- $525.6 million related to our repurchase of approximately 8.0 million shares of our common stock pursuant to the share repurchase programs approved by our Board of Directors on July 19, 2016, and November 10, 2015;
- $201.0 million related to the payment of cash dividends on our common stock;
- $76.5 million related to the exercise of the option to acquire the remaining 34% interest in the filter joint venture from Panasonic; and
- $73.3 million related to the minimum statutory payroll tax withholdings upon vesting of employee performance and restricted stock awards.

These uses of cash were partially offset by the excess tax benefit from stock option exercises of $43.7 million and net proceeds from employee stock option exercises of $28.1 million during fiscal 2016.

Liquidity:

Cash and cash equivalent balances were $1,083.8 million at September 30, 2016, representing an increase of $40.2 million from October 2, 2015. The increase resulted from $1,095.7 million in cash generated from operations which was partially offset by $525.6 million used to repurchase 8.0 million shares of stock, and $201.0 million in cash dividend payments during fiscal 2016, $189.3 million in capital expenditures and $132.1 million related to business acquisition activity. Based on our historical results of operations, we expect that our cash and cash equivalents on hand and the cash we expect to generate from operations will be sufficient to fund our research and development, capital expenditures, potential acquisitions, working capital, quarterly cash dividend payments (if such dividends are declared by the Board of Directors), outstanding commitments and other liquidity requirements associated with existing operations for at least the next 12 months. However, we cannot be certain that our cash on hand and cash generated from operations will be available in the future to fund all of our capital and operating requirements. In addition, any future strategic investments and acquisitions may require additional cash and capital resources. If we are unable to obtain sufficient cash or capital to meet our needs on a timely basis and on favorable terms, our business and operations could be materially and adversely affected.

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

Our cash and cash equivalent balance of $1,083.8 million at September 30, 2016, consisted of $607.2 million held domestically and $476.6 million held by foreign subsidiaries. Of the cash and cash equivalents held by our foreign subsidiaries at September 30, 2016, $441.2 million is considered by us to be indefinitely reinvested and would be subject to material tax effects if repatriated. The remaining $35.4 million of foreign cash and cash equivalents was repatriated subsequent to the fiscal year ended September 30, 2016. The Company did not incur any tax impact as a result of this repatriation and the repatriated cash and cash equivalents will be reported as domestic cash on a go-forward basis.

OFF-BALANCE SHEET ARRANGEMENTS

All significant contractual obligations are recorded on our consolidated balance sheet or fully disclosed in the notes to our consolidated financial statements. We have no material off-balance sheet arrangements as defined in SEC Regulation S-K-303(a)(4)(ii).

CONTRACTUAL CASH FLOWS

Set forth below is a summary of our contractual payment obligations related to our operating leases, other commitments and long-term liabilities at September 30, 2016 (in millions):

	Payments Due By Period				
Obligation	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**Thereafter**
Other long-term liabilities (1)	$ 82.9	$ 3.7	$ 4.0	$ 1.0	$ 74.2
Operating lease obligations	98.2	23.9	39.0	18.0	17.3
Contingent consideration for business combinations (2)	7.9	6.5	1.4	—	—
Other commitments (3)	6.8	6.2	0.6	—	—
Total	$ 195.8	$ 40.3	$ 45.0	$ 19.0	$ 91.5

(1) Other long-term liabilities include our gross unrecognized tax benefits, as well as executive deferred compensation, which are both classified as beyond five years due to the uncertain nature of the liabilities.

(2) Contingent consideration related to business combinations is recorded at fair value and actual results could differ. See Note 3 and Note 4 of Item 8 of this Annual Report on Form 10-K for further detail.

(3) Other commitments consist of contractual license and royalty payments and other purchase obligations. See Note 11 of Item 8 of this Annual Report on Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments in applying our most critical accounting policies that can have a significant impact on the results we report in our financial statements. The SEC has defined critical accounting policies as those that are both most important to the portrayal of our financial condition and results and which require our most difficult, complex or subjective judgments or estimates. Based on this definition, our most critical accounting policies include revenue recognition, which impacts the recording of net revenue; inventory valuation, which impacts the cost of goods sold and gross margin; assessment of goodwill and long-lived assets, which impacts the impairment of the respective assets; business combinations, which impacts the fair value of acquired assets and assumed liabilities; share-based compensation, which impacts cost of goods sold and operating expenses; loss contingencies, which impacts operating expenses; and income taxes, which impacts the income tax provision. These policies and significant judgments involved are discussed further below. We have other significant accounting policies that do not generally require subjective estimates or judgments or would not have a material impact on our results of operations. Our significant accounting policies are described in Note 2 of Item 8 on this Annual Report on Form 10-K.

Revenue Recognition. We recognize revenue in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605 *Revenue Recognition* net of estimated reserves. Our revenue reserves contain uncertainties because they require management to make assumptions and to apply judgment to estimate the value of future credits to customers for price protection and stock rotation for products sold to certain electronic component distributors. Our estimates of the amount and timing of the reserves is based primarily on historical experience and specific contractual arrangements. Historically, we have not experienced material differences between our estimated sales reserves and actual results.

Inventory Valuation. We value our inventory at the lower of cost or fair market value. Reserves for excess and obsolete inventory are established on a quarterly basis and are based on a detailed analysis of forecasted demand in relation to on-hand inventory, saleability of our inventory, general market conditions, and product life cycles. Once reserves are established, write-downs of inventory are considered permanent adjustments to the cost basis of inventory. Our reserves contain uncertainties because the calculation requires management to make assumptions and to apply judgment regarding historical experience, forecasted demand and technological obsolescence. Changes in actual demand or market conditions could adversely impact our reserve calculations. Historically, we have not experienced material differences between our estimated inventory reserves and actual results.

Goodwill and Long-Lived Assets. We evaluate goodwill and long-lived assets for impairment annually on the first day of the fourth fiscal quarter and whenever events or circumstances arise that may indicate that the carrying value of the goodwill or other intangibles may not be recoverable.

Our impairment analysis contains uncertainties because it requires management to make assumptions and to apply judgment to items such as: determination of the reporting unit and asset groupings, estimated control premiums, discount rate, future cash flows, the profitability of future business strategies and useful lives. Historically, we have not experienced material differences between our impairment calculations and actual results.

Business Combinations. We apply significant estimates and judgments in order to determine the fair value of the identified tangible and intangible assets acquired, liabilities assumed and goodwill recognized in business combinations. The value of all assets and liabilities are recognized at fair value as of the acquisition date using a market participant approach.

In measuring the fair value, we utilize a number of valuation techniques consistent with the market approach, income approach and/ or cost approach. The valuation of the identifiable assets and liabilities includes assumptions such as projected revenue, royalty rates, weighted average cost of capital, discount rates and estimated useful lives. These assessments can be significantly affected by our judgments. Historically, we have not experienced material differences in our assigned values and actual results.

Share-Based Compensation. We have a share-based compensation plan which includes non-qualified stock options, restricted and performance share awards and units, employee stock purchase plan and other special share-based awards. Note 9 of Item 8 of this Annual Report on Form 10-K details our current share-based compensation programs.

We determine the fair value of our share-based compensation items with pricing models as of the date of grant using a number of highly complex and subjective variables and assumptions including, but not limited to: our expected stock price volatility over the term of the award, correlation coefficients, risk-free rate, the expected life of the award, forfeiture rates, dividend yield, estimated performance against metrics, etc. Compensation expense is recognized over the requisite service period of the underlying awards. Management periodically evaluates these assumptions and updates share-based compensation expense accordingly. Historically, we have not experienced material differences in our estimates and actual results.

Loss Contingencies. We record an estimate for loss contingencies such as a legal proceeding or claims if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We disclose material loss contingencies if there is at least a reasonable possibility that a loss has been incurred.

Our loss contingency analysis contains uncertainties because it requires management to assess the degree of probability of an unfavorable outcome and to make a reasonable estimate of the amount of potential loss. Historically, we have not experienced material differences between our estimates and actual results.

Income Taxes. We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between tax and financial reporting. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized. Significant management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets.

The application of tax laws and regulations to calculate our tax liabilities is subject to legal and factual interpretation, judgment, and uncertainty in a multitude of jurisdictions. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations, and court rulings. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and interest will be due. We record an amount as an estimate of probable additional income tax liability at the largest amount that we feel is more likely than not, based upon the technical merits of the position, to be sustained upon audit by the relevant tax authority. Historically, we have not experienced material differences between our estimates and actual results.

OTHER MATTERS

Inflation did not have a material impact on our results of operations during the three-year period endedSeptember 30, 2016.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Investment and Interest Rate Risk

Our exposure to interest rate and general market risks related principally to our investment portfolio, and consisted of the following (in millions):

	September 30, 2016
Cash and cash equivalents (time deposits, certificates of deposit and money market funds)	$ 1,083.8
Available for sale securities (auction rate security) at carrying value	2.3
Total	$ 1,086.1

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

Based on our results of operations for the fiscal year endedSeptember 30, 2016, a hypothetical reduction in the interest rates on our cash and cash equivalents to zero would result in an immaterial reduction of interest income with a de minimis impact on income before taxes.

We own $3.2 million of par value auction rate securities that are currently valued at $2.3 million as ofSeptember 30, 2016. In the event that the market conditions change in the future and our auction rate security becomes fully and permanently impaired, the impact to income before income taxes would be the par value of the auction rate security of approximately $3.2 million as of September 30, 2016.

Given the low interest rate environment, the objectives of our investment activities, and the relatively low interest income generated from our cash and cash equivalents and other investments, we do not believe that market, investment or interest rate risks pose material exposures to our current business or results of operations.

Foreign Exchange Rate Risk

Substantially all sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, thereby reducing the impact of foreign exchange rate fluctuations on our results. A percentage of our international operational expenses are denominated in foreign currencies and exchange rate volatility could positively or negatively impact those operating costs. For the fiscal years ended September 30, 2016, October 2, 2015, and October 3, 2014, we had foreign exchange (losses)/gains of ($0.3) million, $1.7 million and $0.1 million, respectively. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Given the relatively small number of customers and arrangements with third-party manufacturers denominated in foreign currencies, we do not believe that foreign exchange volatility has a material impact on our