PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS ANDISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "SWKS". The following table sets forth the range of high and low closing prices for our common stock for the periods indicated, as reported by the NASDAQ Global Select Market. The number of stockholders of record of Skyworks' common stock as of November 12, 2013 was 25,633.

	Fiscal Years Ended			
	September 27, 2013		September 28, 2012	
	High	Low	High	Low
First quarter	$ 24.08	$ 19.80	$ 22.40	$ 14.04
Second quarter	24.97	20.30	28.66	16.78
Third quarter	23.95	20.15	28.40	23.31
Fourth quarter	26.33	20.99	31.18	23.18

We have never paid cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future.

The following table provides information regarding repurchases of common stock made during the fiscal quarter ended September 27, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximately Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
6/29/13-7/26/13	9,054(2)	$22.73	—	$250.0 million
7/27/13-8/23/13	216,628(2)	$24.45	212,600	$244.8 million
8/24/13-9/27/13	636,913(2)	$25.22	603,100	$229.6 million

(1) We repurchased a total of 212,600 shares for an average price of $24.45 and 603,100 shares for an average price of $25.20 for the months ended August 23, 2013 and September 27, 2013, respectively, under our share repurchase program.

(2) Shares of common stock reported in the table above were repurchased by us at the fair market value of the common stock as of the periods stated above, in connection with the satisfaction of tax withholding obligations under restricted stock agreements.

On July 16, 2013, the Board of Directors approved a new share repurchase program, pursuant to which we are authorized to repurchase up to $250.0 million of our common stock from time to time on the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements. The repurchase program is set to expire on July 16, 2015; however, it may be suspended, discontinued or extended by the Board of Directors at any time prior to its expiration on July 16, 2015. This authorized stock repurchase program replaced in its entirety the November 8, 2012 stock repurchase program. These repurchase programs have been and will be funded with our working capital.

ITEM 6. SELECTED FINANCIAL DATA.

You should read the data set forth below in conjunction with Item 7,*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 on Form 10-K. Our fiscal year ends on the Friday closest to September 30. Our previous five fiscal years each consisted of 52 weeks and ended on September 27, 2013, September 28, 2012, September 30, 2011, October 1, 2010 and October 2, 2009, respectively.

The following table represents the selected financial data (in millions, except per share data):

	Fiscal Years Ended				
Statement of Operations Data:	**September 27, 2013**	**September 28, 2012**	**September 30, 2011**	**October 1, 2010**	**October 2, 2009**
Net revenue	$ 1,792.0	$ 1,568.6	$ 1,418.9	$ 1,071.8	$ 802.6
Operating income	$ 345.1	$ 255.6	$ 295.3	$ 199.7	$ 71.7
Operating margin	19.3%	16.3%	20.8%	18.6%	8.9%
Net income	$ 278.1	$ 202.0	$ 226.6	$ 137.3	$ 95.0
Earnings per share:					
Basic	$ 1.48	$ 1.09	$ 1.24	$ 0.78	$ 0.57
Diluted	$ 1.45	$ 1.05	$ 1.19	$ 0.75	$ 0.56

	As of				
Balance Sheet Data:	**September 27, 2013**	**September 28, 2012**	**September 30, 2011**	**October 1, 2010**	**October 2, 2009**
Working capital	$ 893.6	$ 700.6	$ 569.2	$ 585.5	$ 393.9
Property, plant and equipment, net	$ 328.6	$ 279.4	$ 251.4	$ 204.4	$ 162.3
Total assets	$ 2,333.1	$ 2,136.6	$ 1,890.4	$ 1,564.1	$ 1,352.6
Long-term debt (1)	$ —	$ —	$ —	$ 24.7	$ 41.5
Stockholders' equity	$ 2,101.1	$ 1,905.5	$ 1,609.1	$ 1,316.6	$ 1,108.8

(1) Effective October 3, 2009, the Company adopted ASC 470-20 - *Debt, Debt with Conversions and Other Options* in accordance with GAAP. The Company's financial statements and the accompanying footnotes for all prior periods presented have been adjusted to reflect the retrospective adoption of this new accounting principle.

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

The following discussion and analysis of our financial condition and results ofoperations should be read in conjunction with our consolidated financialstatements 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 an innovator of high performance analog semiconductors. Leveraging core technologies, we support automotive, broadband, cellular infrastructure, energy management, GPS, industrial, medical, military, wireless networking, smartphone and tablet applications. Our portfolio consists of amplifiers, attenuators, battery chargers, DC/DC converters, circulators, demodulators, detectors, diodes, directional couplers, front-end modules, hybrids, infrastructure RF subsystems, isolators, LED drivers, mixers, modulators, optocouplers, optoisolators, phase shifters, PLLs/synthesizers/VCOs, power dividers/combiners, power management devices, receivers, switches, voltage regulators and technical ceramics. Key customers include Cisco, Ericsson, Foxconn, Fujitsu, General Electric, Google, Honeywell, HTC, Huawei, Landis & Gyr, Lenovo, LG Electronics, Nest, Netgear, Nokia, Northrop Grumman, Rockwell Collins, Samsung, Sensus and ZTE. Competitors include Analog Devices, Avago Technologies, Hittite Microwave, Linear Technology, Maxim Integrated Products, Murata Manufacturing, Peregrine Semiconductor, RF Micro Devices and Triquint Semiconductor.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED SEPTEMBER 27, 2013, SEPTEMBER 28, 2012, AND SEPTEMBER 30, 2011.

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

	September 27, 2013	September 28, 2012	September 30, 2011
Net revenue	100.0 %	100.0 %	100.0 %
Cost of goods sold	57.2	57.5	56.3
Gross profit	42.8	42.5	43.7
Operating expenses:			
Research and development	12.6	13.5	11.9
Selling, general and administrative	8.9	10.1	9.7
Amortization of intangibles	1.6	2.1	1.2
Restructuring and other charges	0.4	0.5	0.1
Total operating expenses	23.5	26.2	22.9
Operating income	19.3	16.3	20.8
Interest expense	—	—	(0.1)
Other (expense) income, net	—	—	—
Income before income taxes	19.3	16.3	20.7
Provision for income taxes	3.7	3.4	4.7
Net income	15.6 %	12.9 %	16.0 %

GENERAL

During the fiscal year ended September 27, 2013, the following key factors contributed to our overall results of operations, financial position and cash flows:

- Increased net revenue by14% to approximately $1.8 billion as we continue to experience year-over-year growth as smartphones continue to displace traditional cellular phones, tablet computing increases in popularity and our product portfolio expands to address additional content within handset, tablet and adjacent vertical markets including medical, automotive, military and industrial.

- Operating expenses decreased to 23.5% for fiscal 2013 from 26.2% in fiscal 2012. In absolute terms operating expense increased from $412 million to $422 million primarily in connection with increased research and development expense as a result of increased product development activity.

- Our effective tax rate for fiscal 2013 improved to 19.3% from 20.7% in fiscal 2012 primarily as a result of a higher percentage of our income being earned and taxed in lower-rate foreign jurisdictions.

- As a result of the aforementioned factors, overall profitability increased significantly from fiscal 2012 with both net income and diluted earnings per share increasing 38% year over year.

- Our ending cash and cash equivalents balance increased 66% to $511 million in fiscal 2013 from $307 million in fiscal 2012. This was the result of a 75% increase in cash from operations to $500 million in fiscal 2013 due to higher net income and improvements in working capital. In addition, we invested $185 million to repurchase over 8 million shares of our common stock and $124 million on capital expenditures to expand our manufacturing capabilities.

NET REVENUE

(dollars in millions)	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
Net revenue	$ 1,792.0	14.2%	$ 1,568.6	10.5%	$ 1,418.9

We market and sell our products directly to original equipment manufacturers of communications and electronics products, third-party original design manufacturers and contract manufacturers, and indirectly through electronic components distributors. We generally experience seasonal peaks during the second half of the calendar year primarily as a result of increased worldwide production of consumer electronics in anticipation of increased holiday sales. In addition, we periodically enter into revenue generating arrangements that leverage our broad intellectual property portfolio by licensing or selling our non-core patents or other intellectual property, and we anticipate continuing this intellectual property strategy in future periods.

Overall revenue in fiscal 2013 increased by $223.4 million, or 14.2%, primarily due to the increasing demand for our 3G, Switching, Wireless LAN and GPS solutions. The increase was partially offset by lower GSM/GPRS product revenue as a result of the contracting 2G market.

Overall revenue in fiscal 2012 increased by $149.7 million, or 10.6%. The increase in revenue was primarily driven by sales of our expanded product portfolio consisting of new products from the acquisitions of Advanced Analogic Technologies Inc. ("AATI") and SiGe Semiconductor, Inc. ("SiGe"). In addition, we benefited from sales of new internally developed products for medical, automotive, military and industrial vertical markets and our increasing addressable content per device as the smartphone upgrade cycle continued to displace traditional 2G cellular phones.

For information regarding net revenue by geographic region and customer concentration, see Note 15 of Item 8 of this Annual Report on Form 10-K.

GROSS PROFIT

(dollars in millions)	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
Gross profit	$ 766.6	14.9%	$ 667.1	7.5%	$ 620.3
% of net revenue	42.8%		42.5%		43.7%

Gross profit represents net revenue less cost of goods sold. Our cost of goods sold consists primarily of purchased materials, labor and overhead (including depreciation and share-based compensation expense) associated with product manufacturing. Erosion of average selling prices of established products is typical of the semiconductor industry. 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 $99.5 million greater for the fiscal year ended September 27, 2013 than gross profit for the prior fiscal year. 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 $152.1 million. These benefits were partially offset by the erosion of average selling price and unfavorable changes in product mix which combined to negatively impact gross profit by $52.6 million. As a result of these impacts, gross profit margin increased to 42.8% of net revenue for the fiscal year ended September 27, 2013.

Gross profit was $46.8 million greater for the fiscal year ended September 28, 2012 than gross profit for the prior fiscal year. The increase in gross profit was the result of higher unit volumes and lower overall per unit material and manufacturing costs with an aggregate gross profit benefit of $151.7 million. These benefits were partially offset by the erosion of average selling price, unfavorable changes in product mix, the impact, of the fair value step-up of acquired inventory primarily related to AATI and SiGe and higher share-based compensation expense which combined to negatively impact gross profit by $104.9 million. As a result of these impacts, gross profit margin decreased to 42.5% of net revenue for the fiscal year ended September 28, 2012.

During fiscal 2013 and 2012 we continued to benefit from higher contribution margins associated with the licensing and/or sale of intellectual property. Revenue associated with the licensing and/or sale of intellectual property was immaterial to the consolidated results of operations.

RESEARCH AND DEVELOPMENT

	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
(dollars in millions)					
Research and development	$ 226.3	6.5%	$ 212.5	26.0%	$ 168.6
% of net revenue	12.6%		13.5%		11.9%

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 6.5% increase in research and development expense in fiscal 2013 when compared to fiscal 2012 is primarily attributable to a net increase of $8.3 million related to product design and development activity including the full year impact of AATI activities as well as a net increase of $6.7 million in compensation expense. These increases were partially offset by reductions related to the organizational restructuring initiated during the fiscal year. Research and development expense decreased as a percentage of net revenue due to the aforementioned increase in net revenue.

The 26.0% increase in research and development expenses in fiscal 2012 when compared to fiscal 2011 is primarily attributable to higher head count and related compensation, including share-based compensation expense, resulting from the acquisition of SiGe and AATI, and to a lesser extent, to increased internal product design and development activity for our target markets. This resulted in total research and development expense increasing as a percentage of net revenue.

SELLING, GENERAL AND ADMINISTRATIVE

	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
(dollars in millions)					
Selling, general and administrative	$ 159.7	0.8%	$ 158.4	15.4%	$ 137.3
% of net revenue	8.9%		10.1%		9.7%

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 and other costs.

The increase for the fiscal year ended September 27, 2013, was primarily related to increased compensation expense offset by the decrease in aggregated acquisition-related and legal expenses incurred in the prior fiscal year. Selling, general and administrative expenses decreased as a percentage of net revenue due to the decrease in the aforementioned expenses as well as the increase in net revenue.

The increase for the fiscal year ended September 28, 2012 was primarily the result of incremental headcount and compensation expense (including share-based compensation) related to the acquisitions of AATI and SiGe (full year impact), increased acquisition and legal expense of $10.9 million primarily associated with the acquisition of AATI and $5.8 million in charges related to the resolution of contractual disputes. These charges were partially offset by a $5.4 million favorable change in the fair value of contingent consideration liabilities associated with the 2011 acquisition of SiGe. These factors resulted in selling, general and administrative expenses increasing as a percentage of net revenue.

AMORTIZATION OF INTANGIBLES

	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
(dollars in millions)					
Amortization of intangibles	$ 29.1	(11.3)%	$ 32.8	96.4%	$ 16.7
% of net revenue	1.6%		2.1%		1.2%

Amortization expense decreased for the fiscal year ended September 27, 2013 when compared to the corresponding periods in the prior fiscal year due to the end of the estimated useful lives of certain fully amortized intangible assets acquired in prior fiscal years.

The increase in amortization expense in fiscal 2012 was primarily related to intangible assets recognized in connection with our acquisition of AATI in fiscal 2012 and the full year impact related to intangibles recognized in the acquisition of SiGe in fiscal 2011.

RESTRUCTURING AND OTHER CHARGES

	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
(dollars in millions)					
Restructuring and other charges	$ 6.4	(17.9)%	$ 7.8	225.0%	$ 2.4
% of net revenue	0.4%		0.5%		0.1%

The restructuring and other charges incurred during the fiscal year ended September 27, 2013 relate to severance costs associated with separate organizational restructuring plans initiated during the period. These actions are largely complete and we do not anticipate incurring any further material charges related to these restructuring plans. We made cash payments related to these restructuring activities of approximately $7.1 million during the fiscal year ended September 27, 2013 and expect all cash payments to be completed in fiscal 2014 in all material respects.

The increase in restructuring and other charges incurred in fiscal 2012 relate primarily to employee and lease terminations to reduce redundancies associated with the acquisition of AATI.

For additional information regarding the restructuring activities, see Note 13 of Item 8 of this annual report on Form 10-K.

PROVISION FOR INCOME TAXES

	Fiscal Years Ended				
	September 27, 2013	Change	September 28, 2012	Change	September 30, 2011
(dollars in millions)					
Provision for income taxes	$ 66.4	25.5%	$ 52.9	(21.4)%	$ 67.3
% of net revenue	3.7%		3.4%		4.7%

Income tax expense increased by 25.5% to $66.4 million for fiscal 2013 as compared to $52.9 million in fiscal 2012. The annual effective tax rate for fiscal 2013 decreased to 19.3% as compared to 20.7% in fiscal 2012.

The annual effective tax rate for fiscal 2013 of 19.3% was less than the United States federal statutory rate of 35% primarily due to benefits of 14.7% related to foreign earnings taxed at a rate less than the United States federal rate, benefits of 4.7% related to research and development tax credits, and benefits of 1.5% related to a domestic production activities deduction partially offset by income tax rate expense impact of 3.4% related to a change in our tax reserves.

As a result of the enactment of the Taxpayer Relief Act of 2012, which retroactively reinstated and extended the research and development tax credit, $7.0 million of federal research and development tax credits which were earned in fiscal 2012 reduced our tax rate during fiscal 2013.

We operate under a tax holiday in Singapore, which is effective through September 30, 2020. This tax holiday is conditional upon our compliance in meeting certain employment and investment thresholds in Singapore.

The annual effective tax rate for fiscal 2012 of 20.7% was less than the United States federal statutory rate of 35% primarily due to benefits of 16.8% related to foreign earnings taxed at a rate less than the United States federal rate, and benefits of 1.5% related to a domestic production activities deduction, partially offset by income tax rate expense impact of 4.1% related to a change in our tax reserves.

LIQUIDITY AND CAPITAL RESOURCES

	Fiscal Years Ended		
(dollars in millions)	September 27, 2013	September 28, 2012	September 30, 2011
Cash and cash equivalents at beginning of period	$ 307.1	$ 410.8	$ 459.4
Net cash provided by operating activities	499.7	285.2	365.8
Net cash used in investing activities	(123.0)	(302.8)	(349.9)
Net cash used in financing activities	(172.7)	(86.1)	(64.5)
Cash and cash equivalents at end of period	$ 511.1	$ 307.1	$ 410.8

Cash Flow from Operating Activities:
Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain operating assets and liabilities. For fiscal 2013, we generated $499.7 million in cash flow from operations, an increase of $214.5 million when compared to $285.2 million generated in fiscal 2012. The increase in cash flow from operating activities during the fiscal year ended September 27, 2013 was related to higher net income combined with a net cash inflow from changes in operating assets and liabilities and the effects of non-cash amortization of intangibles, depreciation, and share-based compensation. Specifically, the changes in operating assets were decreases of $4.9 million in accounts receivable due to the timing of customer collections and $3.4 million in inventory. The changes in operating liabilities were a decrease of $14.1 million in accounts payable related to the timing of vendor payments and an increase of $32.2 million in other current and long-term liabilities primarily related to changes in tax liabilities and payroll related accruals.

Cash Flow from Investing Activities:
Cash flow from investing activities consists of capital expenditures, the sale and maturity of investments and acquisitions, net of cash acquired. Cash flow used in investing activities was $123.0 million during fiscal 2013, compared to $302.8 million during fiscal 2012. Cash used in investing activities decreased due to the acquisition of AATI in the prior fiscal year. Capital expenditures increased to $123.8 million from $94.1 million in fiscal 2012 due to the purchase of manufacturing equipment to support increased production in anticipation of accelerating demand from key customers at our wafer fabrication facilities located in the United States, our assembly and test facility in Mexicali, Mexico, and at the manufacturing facilities of one of our suppliers. Our uses of cash for investing activities during fiscal 2013 were partially offset by $0.8 million in proceeds we received upon the sale of an investment during the fiscal year ended September 27, 2013.

Cash Flow from Financing Activities:
Cash flows from financing activities consist primarily of cash transactions related to debt and equity. During fiscal 2013, we had net cash outflows of $172.7 million, compared to $86.1 million in fiscal 2012. During fiscal 2013 we had the following significant uses of cash:

- $184.9 million related to our repurchase of approximately 8.1 million shares of our common stock pursuant to the share repurchase programs approved by our Board of Directors on November 8, 2012 and July 16, 2013.
- $18.6 million related to payroll tax withholdings on vesting of employee performance and restricted stock awards; and,
- $1.1 million related to the cash payment of a contingent consideration obligation related to an acquisition in a prior year;

These uses of cash were partially offset by the net proceeds from employee stock option exercises of $21.1 million and the tax benefit from stock option exercises of $10.8 million during fiscal 2013.

Liquidity:
Cash and cash equivalent balances were $511.1 million at September 27, 2013, representing an increase of $204.0 million from September 28, 2012. The increase resulted from $499.7 million in cash generated from operations which is partially offset by $184.9 million used to repurchase 8.1 million shares of stock and $123.8 million in capital expenditures for increased production capacity during the fiscal year ended September 27, 2013. 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, working capital and other cash requirements for at least the next 12 months. However, we cannot be certain that our cash on hand and our cash 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 $511.1 million at September 27, 2013 consisted of $267.9 million held domestically and $243.2 million held by foreign subsidiaries. Of the cash and cash equivalents held by our foreign subsidiaries at September 27, 2013, $178.1 million is considered by us to be indefinitely reinvested and would be subject to material tax effects if repatriated. The remaining $65.1 million of foreign cash and cash equivalents can be repatriated without any tax consequences.

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 27, 2013 (in millions):

	Payments Due By Period				
Obligation	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**Thereafter**
Other long-term liabilities (1)	52.3	4.3	—	—	48.0
Operating lease obligations	34.2	9.2	13.8	6.1	5.1
Other commitments (2)	11.2	7.0	4.2	—	—
Total	$ 97.7	$ 20.5	$ 18.0	$ 6.1	$ 53.1

(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) Other commitments consist of contractual license and royalty payments, and other purchase obligations. See Note 10 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 that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission 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, we believe our critical accounting policies include the policies of revenue recognition, inventory valuation, impairment of long-lived assets, business combinations, share-based compensation, loss contingencies and income taxes.

On an ongoing basis, we evaluate the judgments and estimates underlying all of our accounting policies. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures, and reported amounts of revenues and expenses. These estimates and assumptions are based on our best judgments. We evaluate our estimates and assumptions using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, factors may arise over time that lead us to change our methods, estimates and judgments that could materially and adversely affect our results of operations.

Our significant accounting policies are discussed in detail in Note 2 of Item 8 In this Annual Report on Form 10-K. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue in accordance with the Financial Accounting Standards Board's 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 product returns (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. Our reserves contain uncertainties because the calculation requires management to make assumptions and to apply judgment regarding historical experience, forecasted demand and technological obsolescence. Historically, we have not experienced material differences between our estimated inventory reserves and actual results.

Impairment of Long-Lived Assets. We evaluate goodwill and other indefinite-lived intangible 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 indefinite-lived intangibles may not be recoverable. Other long-lived assets are evaluated on an ongoing basis.

The impairment evaluation of goodwill involves comparing the fair value to the carrying value of the reporting unit. We use the market price of the Company's stock adjusted for a market premium to calculate the fair value of the reporting unit. If the fair value exceeds the carrying value, then it is concluded that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure the possible goodwill impairment loss.

In the second step, if required, we would use a discounted cash flow methodology to determine the implied fair value of our goodwill. The implied fair value of the reporting unit's goodwill would then be compared to the carrying value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value of the goodwill, we would recognize a loss equal to the excess.

Our impairment analyses contain uncertainties because it requires management to make assumptions and to apply judgment to items such as: estimate control premiums, discount rate, future cash flows, the profitability of future business strategies and useful lives.

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 the contingent consideration recorded as part of business combinations. The value of all assets and liabilities are recognized at fair value as of the acquisition date.

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.

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. See Note 8 of Item 8 of this Annual Report on Form 10-K for a detailed listing and complete discussion of our share-based compensation programs.

We determine the fair value of our non-qualified stock options at the date of grant using the Black-Scholes options-pricing model. Our determination of fair value of share-based payment awards on the date of grant contains assumptions regarding a number of highly complex and subjective variables including, but not limited to: our expected stock price volatility over the term of the award, risk-free rate, and the expected life of the award. The Black-Scholes value, combined with our estimated forfeiture rate, is used to determine the compensation expense to be recognized over the requisite service period of the options. For restricted and performance based awards and units, we determine the fair value based on the grant date value of the Company's stock. These awards and units are expensed over the requisite service period of the award. Performance based awards and units are valued based on an estimate of the most probable outcome of the underlying performance metric. Management periodically evaluates these assumptions and updates share-based compensation expense accordingly.