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 Amazon, Arris, Bose, Cisco, DJI, Foxconn, Garmin, General Electric, Google, Honeywell, HTC, Huawei, Landis & Gyr, Lenovo, LG Electronics, Microsoft, Motorola, Netgear, Northrop Grumman, OPPO, Rockwell Collins, Samsung, Sierra Wireless, Sonos, Technicolor, VIVO, Xiaomi, 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 29, 2017, SEPTEMBER 30, 2016, AND OCTOBER 2, 2015.

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

	September 29, 2017	September 30, 2016	October 2, 2015
Net revenue	100.0%	100.0 %	100.0%
Cost of goods sold	49.6	49.4	52.3
Gross profit	50.4	50.6	47.7
Operating expenses:			
Research and development	9.7	9.5	9.3
Selling, general and administrative	5.6	6.0	5.9
Amortization of intangibles	0.8	1.0	1.0
Restructuring and other charges	—	0.1	0.1
Total operating expenses	16.1	16.6	16.3
Operating income	34.3	34.0	31.4
Other income (expense), net	0.1	(0.2)	—
Merger termination fee	—	2.7	—
Income before income taxes	34.4	36.5	31.4
Provision for income taxes	6.7	6.2	6.9
Net income	27.7%	30.3 %	24.5%

GENERAL

During the fiscal year ended September 29, 2017, the following key factors contributed to our overall results of operations, financial position and cash flows:

- Net revenue increased to approximately $3,651 million, an increase of 11% as compared to the prior fiscal year. This increase in revenue was primarily driven by our success in capturing a higher share of the increasing radio frequency and analog content per device as smartphone models continue to evolve, increased strength in emerging markets due to the adoption of evolving technologies, increases in applications for the IoT, and the expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

- Our ending cash and cash equivalents balance increased 49% to $1,617 million in fiscal 2017 from $1,084 million in fiscal 2016. This was the result of a 34% increase in cash from operations to $1,471 million in fiscal 2017 from $1,096 million in fiscal 2016 due to higher net income and changes in net working capital. In addition, we returned $647 million to shareholders through repurchasing 4.7 million shares of our common stock for $432 million together with payments of $215 million in cash dividends. Lastly, we invested approximately $303 million in capital expenditures.

NET REVENUE

	Fiscal Years Ended				
(dollars in millions)	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
Net revenue	$ 3,651.4	11.0%	$ 3,289.0	0.9%	$ 3,258.4

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 $362.4 million increase in revenue in fiscal 2017 as compared to fiscal 2016 was primarily driven by our success in capturing a higher share of the increasing radio frequency and analog content per device as smartphones models continue to evolve, increased strength in emerging markets due to the adoption of evolving technologies, the increasing number of applications for the IoT, and our expanding analog product portfolio supporting new vertical markets including automotive, industrial, medical and military.

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 radio frequency 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 IoT, 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.

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 29, 2017	Change	September 30, 2016	Change	October 2, 2015
Gross profit	$ 1,841.8	10.6%	$ 1,665.2	7.1%	$ 1,554.5
% of net revenue	50.4%		50.6%		47.7%

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 over time. 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 $176.6 million greater in fiscal 2017 as compared to fiscal 2016. 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 $306.6 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 $130.0 million. As a result of these impacts, gross profit margin decreased to 50.4% of net revenue for fiscal 2017.

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.

RESEARCH AND DEVELOPMENT

	Fiscal Years Ended				
(dollars in millions)	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
Research and development	$ 355.2	13.7%	$ 312.4	3.0%	$ 303.2
% of net revenue	9.7%		9.5%		9.3%

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 2017 as compared to fiscal 2016 is primarily related to increased headcount, overall employee-related compensation expense, and expenses associated with product development activity. 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 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.

SELLING, GENERAL AND ADMINISTRATIVE

	Fiscal Years Ended				
(dollars in millions)	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
Selling, general and administrative	$ 204.6	4.4%	$ 195.9	2.4%	$ 191.3
% of net revenue	5.6%		6.0%		5.9%

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 in selling, general and administrative expenses in fiscal 2017 as compared to fiscal 2016 was primarily related to increases in employee-related compensation expenses, including share-based compensation, partially offset by lower legal expenses and a net gain related to the fair value adjustment of contingent consideration recorded during the period. Selling, general and administrative expenses decreased as a percentage of net revenue due to the aforementioned factors and the increase in net revenue.

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.

AMORTIZATION OF INTANGIBLES

	Fiscal Years Ended				
	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
(dollars in millions)					
Amortization of intangibles	$ 27.6	(17.4)%	$ 33.4	(0.3)%	$ 33.5
% of net revenue	0.8%		1.0%		1.0%

The decrease in amortization for fiscal 2017, as compared to fiscal 2016, primarily relates to fully amortized intangible assets that were acquired in prior years partially offset by additional intangible assets acquired during the fiscal year.

The decrease in amortization expense for fiscal 2016, as compared to fiscal 2015, 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.

RESTRUCTURING AND OTHER CHARGES

	Fiscal Years Ended				
	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
(dollars in millions)					
Restructuring and other charges	$ 0.6	(87.5)%	$ 4.8	41.2%	$ 3.4
% of net revenue	—%		0.1%		0.1%

Restructuring and other charges incurred in fiscal 2017 are primarily related to restructuring plans initiated during the period. 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 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.

MERGER TERMINATION FEE

	Fiscal Years Ended				
	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
(dollars in millions)					
Merger termination fee	$ —	(100.0)%	$ 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				
	September 29, 2017	Change	September 30, 2016	Change	October 2, 2015
(dollars in millions)					
Provision for income taxes	$ 246.8	20.2%	$ 205.4	(8.8)%	$ 225.3
% of net revenue	6.7%		6.2%		6.9%

The annual effective tax rate for fiscal 2017 of 19.6% was less than the United States federal statutory rate of 35.0% primarily due to benefits of 14.3% related to foreign earnings taxed at a rate less than the United States federal rate, 1.6% related to a domestic production activities deduction, and 1.3% related to the recognition of federal research and development tax credits, partially offset by income tax rate expense impact of 1.0% related to a change in our tax reserves.

We concluded a Canadian examination of our federal income tax returns for fiscal years 2010 and 2011 during fiscal 2017. As a result, we decreased the reserve for uncertain tax positions which resulted in the recognition of an income tax benefit of $1.2 million in fiscal 2017.

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 $37.4 million and $30.8 million for fiscal 2017 and fiscal 2016, respectively. This resulted in tax benefits of $0.20 and $0.16 of diluted earnings per share for fiscal 2017 and fiscal 2016, respectively.

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.

LIQUIDITY AND CAPITAL RESOURCES

	Fiscal Years Ended		
(in millions)	September 29, 2017	September 30, 2016	October 2, 2015
Cash and cash equivalents at beginning of period	$ 1,083.8	$ 1,043.6	$ 805.8
Net cash provided by operating activities	1,471.3	1,095.7	992.8
Net cash used in investing activities	(325.9)	(250.9)	(454.7)
Net cash used in financing activities	(612.4)	(804.6)	(300.3)
Cash and cash equivalents at end of period	$ 1,616.8	$ 1,083.8	$ 1,043.6

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 2017, we generated $1,471.3 million in cash flow from operations, an increase of$375.6 million when compared to $1,095.7 million generated in fiscal 2016. The increase in cash flow from operating activities during the fiscal year endedSeptember 29, 2017, 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: $147.8 million related to accounts payable, due to the timing of capital expenditures and vendor payments, $96.3 million related to changes in other current and long-term liabilities primarily driven by changes in income taxes and $3.3 million in other current and long-term assets. These sources of cash were offset by uses of cash of: $69.2 million related to increases in inventory primarily related to end customer demand and $37.1 million in accounts receivable due to the timing of customer collections.

Cash flow used in investing activities:
Cash flow used in investing activities consists primarily of cash paid for acquisitions net of cash acquired, capital expenditures, purchased intangibles, cash received from the sale of capital assets, and cash related to the sale or maturity of investments. Cash flow used in investing activities was $325.9 million during fiscal 2017, compared to $250.9 million during fiscal 2016. The cash used for capital expenditures was $303.3 million, primarily related to the purchase of manufacturing equipment to support the expansion of our assembly and test operations, filter production operations, and wafer fabrication facilities. During fiscal 2017, we paid $13.7 million, net of cash acquired, to complete an acquisition and $12.1 million related to purchased intangibles. These uses of cash were partially offset by the maturity of a $3.2 million investment during the period.

Cash flow used in financing activities:

Cash flow used in financing activities consists primarily of cash transactions related to debt and equity. During fiscal 2017, we had net cash outflows of $612.4 million, compared to $804.6 million in fiscal 2016. The decrease in cash used in financing activities primarily related to the decrease in share repurchase activity primarily offset by increased dividend payments during fiscal 2017. During fiscal 2017 we had the following significant uses of cash:

- $432.3 million related to our repurchase of 4.7 million shares of our common stock pursuant to the share repurchase programs approved by our Board of Directors on January 19, 2017, and July 19, 2016;
- $214.6 million related to the payment of cash dividends on our common stock;
- $49.2 million related to the minimum statutory payroll tax withholdings upon vesting of employee performance and restricted stock awards; and
- $10.9 million in deferred payments related to deferred intangible asset purchases and contingent consideration payments.

These uses of cash were partially offset by the excess tax benefit from stock option exercises of $40.8 million and net proceeds from employee stock option exercises of $53.8 million during fiscal 2017.

Liquidity:

Cash and cash equivalent balances were $1,616.8 million at September 29, 2017, representing an increase of $533.0 million from September 30, 2016. The increase resulted from $1,471.3 million in cash generated from operations which was partially offset by $432.3 million used to repurchase 4.7 million shares of stock, and $214.6 million in cash dividend payments during fiscal 2017, $303.3 million in capital expenditures and $13.7 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 $1,616.8 million at September 29, 2017, consisted of $770.9 million held domestically and $845.9 million held by foreign subsidiaries, which is considered by us to be indefinitely reinvested and would be subject to material tax effects if repatriated.

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 29, 2017 (in millions):

	Payments Due By Period				
Obligation	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**Thereafter**
Other long-term liabilities (1)	$ 94.3	$ 5.4	$ 4.0	$ 1.0	$ 83.9
Operating lease obligations	84.6	21.2	34.8	15.4	13.2
Contingent consideration for business combinations (2)	11.9	1.5	10.4	—	—
Other commitments (3)	10.3	10.2	0.1	—	—
Total	$ 201.1	$ 38.3	$ 49.3	$ 16.4	$ 97.1

(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) Contingent consideration related to business combinations is recorded at fair value and actual results could differ. SeeNote 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 net realizable 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, salability 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 29, 2017.

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 relates principally to our investment portfolio which consists of cash and cash equivalents (time deposits, certificates of deposit and money market funds) that total $1,616.8 million as of September 29, 2017.

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

Based on our results of operations for the fiscal year endedSeptember 29, 2017, a hypothetical reduction in the interest rates on our cash and cash equivalents to zero would result in an approximately $5.6 million reduction of interest income with the resulting impact on income before taxes.

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

Foreign Exchange Rate Risk