

DUPONT E I DE NEMOURS & CO

Form 10-K

February 09, 2012

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2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended December 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Commission file number 1-815

E. I. DU PONT DE NEMOURS AND COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

(State or Other Jurisdiction of Incorporation or
Organization)

51-0014090

(I.R.S. Employer Identification No.)

1007 Market Street

Wilmington, Delaware 19898

(Address of principal executive offices)

Registrant's telephone number, including area code: 302-774-1000

Securities registered pursuant to Section 12(b) of the Act

(Each class is registered on the New York Stock Exchange, Inc.):

Title of Each Class

Common Stock (\$.30 par value)

Preferred Stock

(without par value-cumulative)

\$4.50 Series

\$3.50 Series

No securities are registered pursuant to Section 12(g) of the Act.

Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☒ No ☐

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting stock held by nonaffiliates of the registrant (excludes outstanding shares beneficially owned by directors and officers and treasury shares) as of June 30, 2011, was approximately \$50.3 billion.

As of January 31, 2012, 932,253,000 shares (excludes 87,041,000 shares of treasury stock) of the company's common stock, \$0.30 par value, were outstanding.

Documents Incorporated by Reference

(Specific pages incorporated are indicated under the applicable Item herein):

Incorporated
By Reference
In Part No.

The company's Proxy Statement in connection with the Annual Meeting of Stockholders to be held on April 25, 2012

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E. I. du Pont de Nemours and Company

Form 10-K

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The terms "DuPont" or the "company" as used herein refer to E. I. du Pont de Nemours and Company and its consolidated subsidiaries, or to E. I. du Pont de Nemours and Company, as the context may indicate.

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Note on Incorporation by Reference

Information pertaining to certain Items in Part III of this report is incorporated by reference to portions of the company's definitive 2012 Annual Meeting Proxy Statement to be filed within 120 days after the end of the year covered by this Annual Report on Form 10-K, pursuant to Regulation 14A (the Proxy).

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Part I

ITEM 1. BUSINESS

DuPont was founded in 1802 and was incorporated in Delaware in 1915. DuPont brings world-class science and engineering to the global marketplace in the form of innovative products, materials and services. The company believes that by collaborating with customers, governments, non-governmental organizations and thought leaders it can help find solutions to such global challenges as providing enough healthy food for people everywhere, decreasing dependence on fossil fuels, and protecting life and the environment. Total worldwide employment at December 31, 2011, was approximately 70,000 people. The company has operations in more than 90 countries worldwide and about 65 percent of consolidated net sales are made to customers outside the United States of America (U.S.).

Subsidiaries and affiliates of DuPont conduct manufacturing, seed production or selling activities and some are distributors of products manufactured by the company. As a science and technology based company, DuPont competes on a variety of factors such as product quality and performance or specifications, continuity of supply, price, customer service and breadth of product line, depending on the characteristics of the particular market involved and the product or service provided. Most products are marketed primarily through DuPont's sales force, although in some regions, more emphasis is placed on sales through distributors. The company utilizes numerous suppliers as well as internal sources to supply a wide range of raw materials, energy, supplies, services and equipment. To ensure availability, the company maintains multiple sources for fuels and many raw materials, including hydrocarbon feedstocks. Large volume purchases are generally procured under competitively priced supply contracts.

In 2011, DuPont acquired Danisco A/S (Danisco), a global enzyme and specialty food ingredients company. This acquisition was valued at \$6.4 billion, plus net debt assumed of \$0.6 billion.

Business Segments

The company consists of 14 businesses which are aggregated into nine reportable segments based on similar economic characteristics, the nature of the products and production processes, end-use markets, channels of distribution and regulatory environment. The company's reportable segments are Agriculture, Electronics & Communications, Industrial Biosciences, Nutrition & Health, Performance Chemicals, Performance Coatings, Performance Materials, Safety & Protection and Pharmaceuticals. The company includes certain embryonic businesses not included in the reportable segments, such as pre-commercial programs, and nonaligned businesses in Other.

Agriculture

Agriculture businesses, Pioneer Hi-Bred International, Inc. (Pioneer) and DuPont Crop Protection, leverage the company's technology, customer relationships and industry knowledge to improve the quantity, quality and safety of the global food supply and the global production agriculture industry. Land available for worldwide agricultural production is increasingly limited so production growth will need to be achieved principally through improving crop yields and productivity rather than through increases in planted area. The segment's businesses deliver a broad portfolio of products and services that are specifically targeted to achieve gains in crop yields and productivity, including Pioneer® brand seed products and well-established brands of insecticides, fungicides and herbicides. Research and development focuses on leveraging technology to increase grower productivity and enhance the value of grains and soy through improved seed traits, superior seed germplasm and effective use of insecticides, herbicides and fungicides. Agriculture accounted for approximately 50 percent of the company's total research and development expense in 2011.

Sales of the company's products in the segment are affected by seasonal cropping and weather patterns. Sales and earnings performance in the Agriculture segment are strongest in the first half of the year reflecting the northern hemisphere planting season. The segment generally operates at a loss during the third and fourth quarters of the year. As a result of the seasonal nature of its business, Agriculture's inventory is at its highest level at the end of the

calendar year and is sold down in the first and second quarters. Trade receivables in the Agriculture segment are at a low point at year-end and increase through the selling season to peak at the end of the second quarter.

Pioneer is a world leader in developing, producing and marketing corn hybrid and soybean varieties which improve the productivity and profitability of its customers. Additionally, Pioneer sells canola, sunflower, sorghum, inoculants, wheat and rice. As the world's population grows and the middle class expands, the need for crops for animal feed, food, biofuels and industrial uses continues to increase. The business competes with other seed and plant biotechnology companies. Pioneer seed sales amounted to 16 percent, 17 percent and 18 percent of the company's total consolidated net sales for the years ended December 31, 2011, 2010 and 2009, respectively.

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ITEM 1. BUSINESS, continued

Pioneer's research and development focuses on integrating high yielding germplasm with value added proprietary and/or licensed native and biotechnology traits with local environment and service expertise. Pioneer uniquely develops integrated products for specific regional application based on local product advancement and testing of the product concepts. Research and development in this arena requires long-term commitment of resources, extensive regulatory efforts and collaborations, partnerships and business arrangements to successfully bring products to market. Pioneer licenses biotechnology traits from third parties as a normal course of business. To protect its investment, the business employs the use of patents covering germplasm and native and biotechnology traits in accordance with country laws.

Pioneer is actively pursuing the development of innovations for corn hybrid, soybean varieties, canola, sunflower, wheat and rice based on market assessments of the most valuable opportunities. In corn hybrids, programs include innovations for drought and nitrogen efficiency, insect protection and herbicide tolerance. In soybean varieties, programs include products with high oleic content, multiple herbicide tolerance and insect protection.

Pioneer has seed production facilities located throughout the world. Seed production is performed directly by the business or contracted with independent growers and conditioners. Pioneer's ability to produce seeds primarily depends upon weather conditions and availability of reliable contract growers.

Pioneer markets and sells seed product primarily under the Pioneer® brand but also sells and distributes products utilizing additional brand names. Pioneer promotes its products through multiple marketing channels around the world. In the corn and soybean markets of the U.S. Corn Belt, Pioneer® brand products are sold through a specialized force of independent sales representatives. Outside of North America Pioneer's products are marketed through a network of subsidiaries, joint ventures and independent producer-distributors.

DuPont Crop Protection serves the global production agriculture industry with crop protection products for field crops such as wheat, corn, soybean and rice; specialty crops such as fruit, nut, vine and vegetables; and non-crop segments, including forestry and land management. Principal crop protection products are weed control, disease control and insect control products. Crop Protection products are marketed and sold to growers and other end users through a network of wholesale distributors and crop input retailers. The sales growth of the business' insect control portfolio is led by DuPont™ Rynaxypyr® insecticide, a product registered for sale in over 80 countries and sold under four key brands for use across a broad range of core agricultural crops.

The major commodities, raw materials and supplies for the Agriculture segment include: corn and soybean seeds, benzene and carbamic acid related intermediates, copper, insect control products, natural gas, soybeans and sulfonamides.

Agriculture segment sales outside the U.S. accounted for 54 percent of the segment's total sales in 2011.

Electronics & Communications

Electronics & Communications (E&C) is a leading supplier of differentiated materials and systems for photovoltaics, consumer electronics, displays and advanced printing that enable superior performance and lower total cost of ownership for customers. The segment leverages DuPont's strong materials and technology base to target attractive growth opportunities in photovoltaic materials, circuit and semiconductor fabrication and packaging materials, display materials, packaging graphics, and ink-jet printing. In the growing photovoltaics market, E&C continues to be a leading supplier of metalization pastes and backsheet materials for use in solar cells and modules. In 2011, the segment completed the acquisition of Innovalight, Inc., a company specializing in advanced silicon inks and process technologies that increase the efficiency of crystalline silicon solar cells. The acquisition further strengthens the

segment's position as a leader in materials for the solar energy market, enabling a broader and more integrated photovoltaic materials and technology offering from the business. The segment completed a \$295 million expansion to support the DuPont™ Tedlar® polyvinyl fluoride films business. This included a \$120 million investment in capacity expansion to produce the raw materials that make the film, which was completed in 2010, and a multi-phase \$175 million investment of high-performance Tedlar® PV2001 series oriented film production completed in 2011. Tedlar® films serve as the critical component of photovoltaic module backsheets, providing long-term durability and performance in all weather conditions.

In the displays market, E&C continues to be a leading materials supplier for plasma displays. In 2011, the segment signed a technology licensing agreement with a leading Asian manufacturer of active matrix organic light emitting diode (AMOLED) display products that will enable solution-process technology developed by the manufacturer to be used in the segment's production of large AMOLED television displays.

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ITEM 1. BUSINESS, continued

The segment is expanding its broad portfolio of materials for semiconductor fabrication and packaging, as well as innovative materials for circuit applications, to address critical needs of electronic component and device manufacturers. In packaging graphics, E&C is a leading supplier of flexographic printing systems, including Cyrel® photopolymer plates. The segment is investing in new products such as Cyrel® FAST Round to strengthen its market leadership position in advanced printing markets. The segment is also expanding its leadership position in black-pigmented inks and developing new color-pigmented inks for network printing applications.

The major commodities, raw materials and supplies for E&C include: block co-polymers, copper, hydroxylamine, oxydianiline, polyester film, precious metals, difluoroethane and pyromellitic dianhydride.

E&C segment sales outside the U.S. accounted for 86 percent of the segment's total sales in 2011.

Industrial Biosciences

Industrial Biosciences is comprised of Danisco's enzyme business acquired in 2011, as well as the DuPont™ Sorona® renewably sourced polymer and BioPDO™ 1,3 propanediol businesses, previously reported in Other. Industrial Biosciences leverages DuPont's unique combination of biotechnology, chemical, materials science and process engineering capabilities to deliver customer-driven, superior-performing, sustainable solutions. Industrial Biosciences is a leader in developing and manufacturing a wide range of enzymes, which are biocatalysts that enable chemical reactions, on a large scale. The segment's enzymes add value and functionality to a broad range of products and processes such as animal nutrition, detergents, food manufacturing, ethanol production and industrial applications resulting in cost and process benefits, better product performance and improved environmental outcomes.

The segment includes a joint venture with Tate & Lyle PLC, DuPont Tate and Lyle Bio Products LLC, to produce BioPDO™ using a proprietary fermentation and purification process. BioPDO™ is the key building block for DuPont™ Sorona®, which is used primarily in carpet and apparel fibers.

The major commodities, raw materials and supplies for the Industrial Biosciences segment include: grain products, such as dextrose and glucose, glucoamylase, purified terephthalic acid and glycols.

Industrial Biosciences segment sales outside the U.S. accounted for 53 percent of the segment's total sales in 2011.

Nutrition & Health

Nutrition & Health is comprised of Danisco's world leading specialty food ingredients business and Solae, a majority-owned venture with Bunge Limited, which is a world leader in developing soy based technologies. The segment is the premier provider of innovative solutions for specialty food ingredients, health and safety. The segment's products, which include cultures, emulsifiers, gums, natural sweeteners and soy-based food ingredients, hold leading market positions based on industry leading innovation, relevant product portfolio and close-partnering with the world's food manufacturers. Nutrition & Health serves various end markets within the food industry including meat, dairy, beverages and bakery segments. Nutrition & Health has research, production and distribution operations around the world.

Nutrition & Health products are marketed and sold under a variety of brand names and are distributed primarily through its direct route to market. The direct route to market focuses on strong customer collaborations and insights with multinational customers and regional customers alike.

The major commodities, raw materials and supplies for the Nutrition & Health segment include: soybean, oils and fats, grain products, locust bean gum, glycerin, seaweed, acetyls, sugar, yeast and citrus peels.

Nutrition & Health segment sales outside the U.S. accounted for 69 percent of the segment's total sales in 2011.

Performance Chemicals

Performance Chemicals businesses, DuPont Titanium Technologies and DuPont Chemicals and Fluoroproducts, deliver customized solutions with a wide range of industrial and specialty chemical products for markets including plastics and coatings, textiles, mining, pulp and paper, water treatment and healthcare.

DuPont Titanium Technologies is the world's largest manufacturer of titanium dioxide, and is dedicated to creating greater value for the coatings, paper, plastics, specialties and minerals markets through service, brand and product. The business' main products include its broad line of DuPontTM Ti-Pure[®] titanium dioxide products. In 2011, the business announced a global expansion to

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ITEM 1. BUSINESS, continued

support increased customer demand for titanium dioxide, including a \$500 million investment in new production facilities at the company's Altamira, Mexico site scheduled for completion in 2014. In addition, the business is investing in facility upgrades to improve productivity at its other global manufacturing sites over the next three years.

DuPont Chemicals and Fluoroproducts is a leading global manufacturer of industrial and specialty fluorochemicals, fluoropolymers and performance chemicals. The business' broad line of products that include refrigerants, lubricants, propellants, solvents, fire extinguishants and electronic gases, cover a wide range of industries and markets. Key brands include DuPont™ Teflon® Capstone®, Dymel®, Opteon™ yf, Isceon®, Suva®, Vertrel®, Zylon®, Vazo® and Virkon®.

The major commodities, raw materials and supplies for the Performance Chemicals segment include: ammonia, benzene, chlorine, chloroform, fluorspar, hydrofluoric acid, industrial gases, methanol, natural gas, perchloroethylene, sulfur, petroleum coke and titanium ore.

Performance Chemicals segment sales outside the U.S. accounted for 60 percent of the segment's total sales in 2011.

Performance Coatings

Performance Coatings is one of the world's leading motor vehicle coatings suppliers. Products offered include high performance liquid and powder coatings for motor vehicle original equipment manufacturers (OEMs), the motor vehicle after-market, and general industrial applications, such as coatings for heavy equipment, pipes and appliances and electrical insulation. After-market coatings products are marketed using the DuPont™ Standox®, Spies Hecker®, Cromax Pro® and Nason® brand names. Standox®, Spies Hecker® and Cromax Pro® are focused on the high-end motor vehicle after-markets, while Nason® is primarily focused on economy coating applications. The segment has several large customers, primarily in the motor vehicle OEM industry supply chain. The company has long-standing relationships with these customers and they are considered to be important to the segments' operating results.

The major commodities, raw materials and supplies for the Performance Coatings segment include: isocyanates, pigments, resins and solvents.

Performance Coatings segment sales outside the U.S. accounted for 75 percent of the segment's total sales in 2011.

Performance Materials

Performance Materials businesses, Performance Polymers and Packaging & Industrial Polymers, provide productive, higher performance polymers, elastomers, films, parts, and systems and solutions which improve the uniqueness, functionality and profitability of its customers' offerings. The key markets served by the segment include the automotive OEM and associated after-market industries, as well as electrical, packaging, construction, oil, electronics, photovoltaics, aerospace, chemical processing and consumer durable goods. The segment has several large customers, primarily in the motor vehicle OEM industry supply chain. The company has long-standing relationships with these customers and they are considered to be important to the segments' operating results.

Performance Polymers delivers a broad range of polymer-based high performance materials in its product portfolio, including elastomers and thermoplastic and thermoset engineering polymers which are used by customers to fabricate components for mechanical, chemical and electrical systems. The main products include: DuPont™ Zytel® nylon resins, Delrin® acetal resins, Hytrel® polyester thermoplastic elastomer resins, Tynex® filaments, Vespel® parts and shapes, Vamac® ethylene acrylic elastomer, Kalrez® perfluoroelastomer and Viton® fluoroelastomers. Performance Polymers also includes the DuPont Teijin Films joint venture, whose primary products are Mylar® and Melinex® polyester films.

Packaging & Industrial Polymers specializes in resins and films used in packaging and industrial polymer applications, sealants and adhesives, sporting goods, and interlayers for laminated safety glass. Key brands include: DuPont™ Surlyn® ionomer resins, Bynel® coextrudable adhesive resins, Elvax® EVA resins, SentryGlas®, Butacite® laminate interlayers and Elvaloy® copolymer resins.

The major commodities, raw materials and supplies for the Performance Materials segment include: acrylic monomers, adipic acid, butadiene, butanediol, dimethyl terephthalate, ethane, fiberglass, hexamethylenediamine, methanol, natural gas and purified terephthalic acid.

Performance Materials segment sales outside the U.S. accounted for 68 percent of the segment's total sales in 2011.

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Safety & Protection

Safety & Protection businesses, Protection Technologies, Sustainable Solutions and Building Innovations, satisfy the growing global needs of businesses, governments and consumers for solutions that make life safer, healthier and more secure. By uniting market-driven science with the strength of highly regarded brands, the segment delivers products and services to a large number of markets, including construction, transportation, communications, industrial chemicals, oil and gas, electric utilities, automotive, manufacturing, defense, homeland security and safety consulting.

Protection Technologies is focused on finding solutions to protect people and the environment. With products like DuPont™ Kevlar® high strength material, Nomex® thermal resistant material and Tyvek® protective material, the business continues to hold strong positions in life protection markets and meet the continued demand for body armor and personal protective gear for the military, law enforcement personnel, firefighters and other first responders, as well as for workers in the oil and gas industry around the world. In 2011, the business announced the start up of its \$500 million Cooper River Kevlar® facility near Charleston, South Carolina. The Cooper River Kevlar® plant uses state-of-the-art technology that will allow the business to meet increased customer demand for advanced protective materials in emerging industries around the world by expanding its portfolio of science-based innovations and boosting productivity. Commercial supply began at the end of 2011.

Sustainable Solutions continues to help organizations worldwide reduce workplace injuries and fatalities while improving operating costs, productivity and quality. Sustainable Solutions is a leader in the safety consulting field, selling training products, as well as consulting services. Additionally, Sustainable Solutions is dedicated to clean air, clean fuel and clean water with offerings that help reduce sulfur and other emissions, formulate cleaner fuels, or dispose of liquid waste. Its goal is to help maintain business continuity and environmental compliance for companies in the refining and petrochemical industries, as well as for government entities. In 2010, the business completed the acquisition of MECS, Inc. (MECS), which is a leading global provider of process technology, proprietary specialty equipment and technical services to the sulfuric acid industry.

Building Innovations is committed to the building science behind increasing the performance of building systems, helping reduce operating costs and creating more sustainable structures. The business is a market leader of solid surfaces through its DuPont™ Corian® and Montelli® lines of products which offer durable and versatile materials for residential and commercial purposes. Other products such as DuPont™ Tyvek® and Typar® offer leading solutions for the protection and energy efficiency of buildings.

The major commodities, raw materials and supplies for the Safety & Protection segment include: alumina hydroxide, benzene, high density polyethylene, isophthaloyl chloride, metaphenylenediamine, methyl methacrylate, paraphenylenediamine, polyester fiber, terephthaloyl chloride and wood pulp.

Safety & Protection segment sales outside the U.S. accounted for 63 percent of the segment's total sales in 2011.

Pharmaceuticals

On October 1, 2001, DuPont Pharmaceuticals was sold to the Bristol-Myers Squibb Company. DuPont retained its interest in Cozaar® (losartan potassium) and Hyzaar® (losartan potassium with hydrochlorothiazide), which are used in the treatment of hypertension. DuPont has exclusively licensed worldwide marketing and manufacturing rights for Cozaar® and Hyzaar® to Merck & Co., Inc. (Merck).

Pharmaceuticals' Cozaar®/Hyzaar® income is the sum of two parts: income related to a share of the profits from North American sales and certain markets in Europe, and royalty income derived from worldwide contract net sales linked to the exclusivity term in a particular country. Patents and exclusivity started to expire in prior years and the U.S.

exclusivity for Cozaar® ended in April 2010. The worldwide agreement terminates when the following conditions are met: (i) the Canadian exclusivity ends (which occurred in January 2012), and (ii) North American sales fall below a certain level, which could occur by year end 2012. The company experienced its first significant step-down in income from Cozaar®/Hyzaar® in 2010 and expects a continued step-down to zero when the contract ends. In general, management expects a traditional earnings and cash decline for a drug going off patent in the pharmaceutical industry to continue until the contract ends.

Backlog

In general, the company does not manufacture its products against a backlog of orders and does not consider backlog to be a significant indicator of the level of future sales activity. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, the company believes that backlog information is not material to understanding its overall business and should not be considered a reliable indicator of the company's ability to achieve any particular level of revenue or financial performance.

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ITEM 1. BUSINESS, continued

Intellectual Property

DuPont believes that its intellectual property estate provides it with an important competitive advantage. It has an established global network of attorneys, as well as branding, advertising and licensing professionals, to procure, maintain, protect, enhance and gain value from this estate.

The company has a large portfolio of and is licensed under various patents. These definite-lived patents cover many products, processes and product uses. These patents protect many aspects of the company's significant research programs and the goods and services it sells. The actual protection afforded by these patents varies from country to country and depends upon the scope of coverage of each individual patent as well as the availability of legal remedies in each country. DuPont owns about 19,000 worldwide patents and is awaiting action on about 18,000 worldwide patent applications. In 2011, the company was granted 910 U.S. patents, the highest number for a single year in the company's history, and about 2,100 international patents. DuPont's rights under its patents and licenses, as well as the products made and sold under them, are important to the company as a whole, and to varying degrees, important to each reportable segment.

Trade secrets are an important element of the company's intellectual property. Many of the processes used to make DuPont products are kept as trade secrets which, from time to time, may be licensed to third parties. DuPont vigilantly protects all of its intellectual property including its trade secrets. When the company discovers that its trade secrets have been unlawfully taken, it reports the matter to governmental authorities for investigation and potential criminal action, as appropriate. In addition, the company takes measures to mitigate any potential impact, which may include civil actions seeking redress, restitution and/or damages based on loss to the company and/or unjust enrichment.

Ownership of and access to intellectual property rights, particularly those relating to biotechnology and germplasm, will continue to be important to Pioneer and its competitors. The environment in which Pioneer competes is characterized by the use among competitors of intellectual property rights, including patent lawsuits, to gain advantage in commercial markets. In support of its business, Pioneer continues to build a large collection of intellectual property rights related to biotechnology and germplasm and to license technology from others, including competitors. Pioneer endeavors to obtain such licenses on commercially reasonable terms.

The company has about 2,450 unique trademarks for its products and services and approximately 22,500 registrations for these trademarks worldwide. Ownership rights in trademarks do not expire if the trademarks are continued in use and properly protected. The company has many trademarks that have significant recognition at the consumer retail level and/or business to business level.

Research and Development

The company conducts research at either dedicated research facilities or manufacturing plants. There are twelve major research locations in the U.S. & Canada, with the highest concentration of facilities being located in the Wilmington, Delaware area. Reflecting the company's global interests, five major research locations are located in both the Asia Pacific and Europe, Middle East and Africa (EMEA) regions. One major location is also located in Latin America.

The objectives of the company's research and development programs are to create new technologies, processes and business opportunities in relevant fields, as well as to improve existing products and processes. Each segment of the company funds research and development activities that support its business mission. The company is expanding its offerings addressing safety, environment, energy and climate challenges in the global marketplace by developing and commercializing renewable, bio-based materials; advanced biofuels; energy-efficient technologies; enhanced safety and protection products; and alternative energy products and technologies. The goals are tied directly to business growth, including increasing food production, increasing renewable sources for energy and raw materials, and

providing greater safety and protection for people and the environment. All research and development activities are administered by senior research and development management to ensure consistency with the business and corporate strategy. The future of the company is not dependent upon the outcome of any single research program.

Additional information with respect to research and development, including the amount incurred during each of the last three fiscal years, is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, on page 19 of this report.

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ITEM 1. BUSINESS, continued

Environmental Matters

Information related to environmental matters is included in several areas of this report: (1) Environmental Proceedings beginning on page 12, (2) Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on pages 29, 33-34 and (3) Notes 1 and 15 to the Consolidated Financial Statements.

Available Information

The company is subject to the reporting requirements under the Securities Exchange Act of 1934. Consequently, the company is required to file reports and information with the Securities and Exchange Commission (SEC), including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

The public may read and copy any materials the company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are also accessible on the company's website at <http://www.dupont.com> by clicking on the tab labeled "Investor Center", then on "Key Financials & Filings" and then on "SEC Filings." These reports are made available, without charge, as soon as is reasonably practicable after the company files or furnishes them electronically with the SEC.

Executive Officers of the Registrant

Information related to the company's Executive Officers is included in Item 10, Directors, Executive Officers and Corporate Governance, beginning on page 38 of this report.

ITEM 1A. RISK FACTORS

The company's operations could be affected by various risks, many of which are beyond its control. Based on current information, the company believes that the following identifies the most significant risk factors that could affect its businesses. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Price increases for energy and raw materials could have a significant impact on the company's ability to sustain and grow earnings.

The company's manufacturing processes consume significant amounts of energy and raw materials, the costs of which are subject to worldwide supply and demand as well as other factors beyond the control of the company. Significant variations in the cost of energy, which primarily reflect market prices for oil and natural gas and raw materials affect the company's operating results from period to period. Legislation to address climate change by reducing greenhouse gas emissions and establishing a price on carbon could create increases in energy costs and price volatility. When possible, the company purchases raw materials through negotiated long-term contracts to minimize the impact of price fluctuations. Additionally, the company enters into over-the-counter and exchange traded derivative commodity instruments to hedge its exposure to price fluctuations on certain raw material purchases. The company takes actions to offset the effects of higher energy and raw material costs through selling price increases, productivity improvements and cost reduction programs. Success in offsetting higher raw material costs with price increases is

largely influenced by competitive and economic conditions and could vary significantly depending on the market served. If the company is not able to fully offset the effects of higher energy and raw material costs, it could have a significant impact on the company's financial results.

Failure to develop and market new products and manage product life cycles could impact the company's competitive position and have an adverse effect on the company's financial results.

Operating results are largely dependent on the company's assessment and management of its portfolio of current, new and developing products and services and its ability to bring those products and services to market. The company plans to grow earnings by focusing on developing markets and solutions to meet increasing demand for food productivity, decrease dependency on fossil fuels and protect people, assets and the environment. This ability could be adversely affected by difficulties or delays in product development such as the inability to identify viable new products, successfully complete research and development, obtain relevant regulatory approvals, obtain intellectual property protection, or gain market acceptance of new products and services. Because of the lengthy development process, technological challenges and intense competition, there can be no assurance that any of the

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Part I

ITEM 1A. RISK FACTORS, continued

products the company is currently developing, or could begin to develop in the future, will achieve substantial commercial success. Sales of the company's new products could replace sales of some of its current products, offsetting the benefit of even a successful product introduction.

The company's results of operations could be adversely affected by litigation and other commitments and contingencies.

The company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, product liability, patent infringement, antitrust claims, and claims for third party property damage or personal injury stemming from alleged environmental torts. The company has noted a nationwide trend in purported class actions against chemical manufacturers generally seeking relief such as medical monitoring, property damages, off-site remediation and punitive damages arising from alleged environmental torts without claiming present personal injuries. The company also has noted a trend in public and private nuisance suits being filed on behalf of states, counties, cities and utilities alleging harm to the general public. Various factors or developments can lead to changes in current estimates of liabilities such as a final adverse judgment, significant settlement or changes in applicable law. A future adverse ruling or unfavorable development could result in future charges that could have a material adverse effect on the company. An adverse outcome in any one or more of these matters could be material to the company's financial results.

In the ordinary course of business, the company may make certain commitments, including representations, warranties and indemnities relating to current and past operations, including those related to divested businesses and issue guarantees of third party obligations. If the company were required to make payments as a result, they could exceed the amounts accrued, thereby adversely affecting the company's results of operations.

The company's business, including its results of operations and reputation, could be adversely affected by process safety and product stewardship issues.

Failure to appropriately manage safety, human health, product liability and environmental risks associated with the company's products, product life cycles and production processes could adversely impact employees, communities, stakeholders, the company's reputation and its results of operations. Public perception of the risks associated with the company's products and production processes could impact product acceptance and influence the regulatory environment in which the company operates. While the company has procedures and controls to manage process safety risks, issues could be created by events outside of its control including natural disasters, severe weather events and acts of sabotage.

As a result of the company's current and past operations, including operations related to divested businesses, the company could incur significant environmental liabilities.

The company is subject to various laws and regulations around the world governing the environment, including the discharge of pollutants and the management and disposal of hazardous substances. As a result of its operations, including its past operations and operations of divested businesses, the company could incur substantial costs, including remediation and restoration costs. The costs of complying with complex environmental laws and regulations, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. The ultimate costs under environmental laws and the timing of these costs are difficult to predict. The company's accruals for such costs and liabilities may not be adequate because the estimates on which the accruals are based depend on a number of factors including the nature of the matter, the complexity of the site, site geology, the nature and extent of contamination, the type of remedy, the outcome of discussions with regulatory agencies and other Potentially Responsible Parties (PRPs) at multi-party sites and the number and financial viability of other PRPs.

Market acceptance, government policies, rules or regulations and competition could affect the company's ability to generate sales from genetically modified products.

The company is using biotechnology to create and improve products, particularly in its Agriculture segment. The use of biotechnology to characterize the genetic and performance characteristics of Pioneer seeds provides Pioneer with competitive advantages in the development of new products, and in the most effective placement of those products on customer acres. In addition, the company uses biotechnology to enhance the performance of its seed products through the addition of specific transgenes. The company's ability to generate sales from such products could be affected by market acceptance of genetically modified products as well as governmental policies, laws and regulations that affect the development, manufacture and distribution of products, including the testing and planting of seeds containing biotechnology traits and the import of commodity grain grown from those seeds.

The company competes with major global companies that have strong intellectual property estates supporting the use of biotechnology to enhance products, particularly in the agricultural products and production markets. Speed in discovering and protecting new technologies and bringing products based on them to market is a significant competitive advantage. Failure to predict and respond effectively to this competition could cause the company's existing or candidate products to become less

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Part I

ITEM 1A. RISK FACTORS, continued

competitive, adversely affecting sales.

Changes in government policies and laws could adversely affect the company's financial results.

Sales outside the U.S. constitute approximately 65 percent of the company's 2011 revenue. The company anticipates that international sales will continue to represent a substantial portion of its total sales and that continued growth and profitability will require further international expansion, particularly in developing markets. Sales from developing markets represent 34 percent of the company's revenue in 2011 and the company's growth plans include focusing on expanding its presence in developing markets. The company's financial results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies and similar organizations. These conditions include, but are not limited to, changes in a country's or region's economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights in some countries, changes in the regulatory or legal environment, restrictions on currency exchange activities, burdensome taxes and tariffs and other trade barriers.

International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities and war, could lead to reduced sales and profitability.

Economic factors, including inflation, deflation and fluctuations in currency exchange rates, interest rates and commodity prices could affect the company's financial results.

The company is exposed to fluctuations in currency exchange rates, interest rates and commodity prices. Because the company has significant international operations, there are a large number of currency transactions that result from international sales, purchases, investments and borrowings. The company actively manages currency exposures that are associated with net monetary asset positions, committed currency purchases and sales, foreign currency-denominated revenues and other assets and liabilities created in the normal course of business. Failure to successfully manage these risks could have an adverse impact on the company's financial position, results of operations and cash flows.

Conditions in the global economy and global capital markets may adversely affect the company's results of operations, financial condition, and cash flows.

The company's business and operating results may in the future be adversely affected by global economic conditions, including instability in credit markets, declining consumer and business confidence, fluctuating commodity prices, volatile exchange rates, and other challenges that could affect the global economy. The company's customers may experience deterioration of their businesses, cash flow shortages, and difficulty obtaining financing. As a result, existing or potential customers may delay or cancel plans to purchase products and may not be able to fulfill their obligations in a timely fashion. Further, suppliers could experience similar conditions, which could impact their ability to fulfill their obligations to the company. Adversity within capital markets may impact future return on pension assets, thus resulting in greater future pension costs that impact the company's results. Future weakness in the global economy could adversely affect the company's results of operations, financial condition and cash flows in future periods.

The company's results of operations and financial condition could be seriously impacted by business disruptions and security threats.

Business disruptions, including supply disruptions, increasing costs for energy, temporary plant and/or power outages and information technology system and network disruptions, could seriously harm the company's operations as well as the operations of its customers and suppliers. Like many other multinational organizations, the company faces security threats to its facilities, data and information technology infrastructure. Although it is impossible to predict the occurrences or consequences of business disruptions or security threats, they could result in reduced demand for the company's products, make it difficult or impossible for the company to deliver products to its customers or to receive

raw materials from suppliers, and create delays and inefficiencies in the supply chain. The company actively manages the risks within its control that could lead to business disruptions or security breaches in order to mitigate any potential impact from business disruptions regardless of cause including acts of sabotage, terrorism or war, weather events and natural disasters. Despite these efforts, the impact from business disruptions and security breaches could significantly increase the cost of doing business or otherwise adversely impact the company's financial performance.

Inability to protect and enforce the company's intellectual property rights could adversely affect the company's financial results.

Intellectual property rights, including patents, plant variety protection, trade secrets, confidential information, trademarks, tradenames and other forms of trade dress, are important to the company's business. The company endeavors to protect its intellectual property rights in jurisdictions in which its products are produced or used and in jurisdictions into which its products are imported. However, the company may be unable to obtain protection for its intellectual property in key jurisdictions. The company has designed and implemented internal controls to restrict access to and distribution of its intellectual property. Despite these

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ITEM 1A. RISK FACTORS, continued

precautions, the company's intellectual property is vulnerable to unauthorized access through cyber-attacks, theft, and other security breaches. When unauthorized access and use or counterfeit products are discovered, the company reports such situations to governmental authorities for investigation, as appropriate, and takes measures to mitigate any potential impact.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The company's corporate headquarters are located in Wilmington, Delaware. The company's manufacturing, processing, marketing and research and development facilities, as well as regional purchasing offices and distribution centers are located throughout the world.

Information regarding research and development facilities is incorporated by reference to Item 1, Business-Research and Development. Additional information with respect to the company's property, plant and equipment and leases is contained in Notes 9, 15 and 20 to the Consolidated Financial Statements.

The company has investments in property, plant and equipment related to global manufacturing operations.

Collectively there are over 300 principal sites in total. The number of sites used by their applicable segment(s) by major geographic area around the world is as follows:

	Number of Sites								
	Agriculture	Electronics & Communication	Industrial Biosciences	Nutrition & Health	Performance Chemicals	Performance Coatings	Performance Materials	Safety & Protection	Total ¹
Asia Pacific	17	11	1	9	6	3	19	7	73
EMEA	17	4	7	20	4	8	12	5	77
Latin America	15	—	1	7	1	3	1	1	29
U.S. & Canada	56	18	4	14	29	5	20	10	156
	105	33	13	50	40	19	52	23	335

¹. Sites that are used by multiple segments are included more than once in the figures above.

The company's plants and equipment are well maintained and in good operating condition. The company believes it has sufficient capacity to meet demand in 2012. Properties are primarily owned by the company; however, certain properties are leased. No title examination of the properties has been made for the purpose of this report and certain properties are shared with other tenants under long-term leases.

DuPont recognizes that the security and safety of its operations are critical to its employees, community and, indeed, to the future of the company. As such, the company has merged chemical site security into its safety core value where it serves as an integral part of its long standing safety culture. Physical security measures have been combined with process safety measures (including the use of inherently safer technology), administrative procedures and emergency response preparedness into an integrated security plan. The company has conducted vulnerability assessments at operating facilities in the U.S. and high priority sites worldwide and identified and implemented appropriate measures to protect these facilities from physical and cyber attacks. DuPont is partnering with carriers, including railroad, shipping and trucking companies, to secure chemicals in transit.

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ITEM 3. LEGAL PROCEEDINGS

The company is subject to various litigation matters, including, but not limited to, product liability, patent infringement, antitrust claims, and claims for third party property damage or personal injury stemming from alleged environmental torts. Information regarding certain of these matters is set forth below and in Note 15 to the Consolidated Financial Statements.

Litigation

PFOA: Environmental and Litigation Proceedings

For purposes of this report, the term PFOA means collectively perfluorooctanoic acid and its salts, including the ammonium salt and does not distinguish between the two forms. Information related to this matter is included in Note 15 to the Consolidated Financial Statements under the heading PFOA.

Environmental Proceedings

Belle Plant, West Virginia

The U.S. Environmental Protection Agency (EPA) is investigating three chemical releases at DuPont's Belle facility in West Virginia which occurred in January 2010. One of the releases involved the death of a DuPont employee after exposure to phosgene.

Chambers Works Plant, Deepwater, New Jersey

In 2010, the government initiated an enforcement action alleging that the facility violated recordkeeping requirements of certain provisions of the Clean Air Act (CAA) and the Federal Clean Air Act Regulations (FCAR) governing Leak Detection and Reporting and that it failed to report emissions of a compound from Chambers Works' waste water treatment facility under the Emergency Planning and Community Right-to-Know Act. The alleged non-compliance was identified by EPA in 2007 and 2009 following separate environmental audits. DuPont is in settlement negotiations with EPA and the Department of Justice (DOJ).

Yerkes Plant, Buffalo, New York

The government alleges that the facility violated recordkeeping requirements of certain provisions of the CAA and the FCAR governing Leak Detection and Reporting and that it failed to accurately report emissions under the Emergency Planning and Community Right-to-Know Act. The alleged non-compliance was identified by EPA in 2006 and 2010 following separate environmental audits. DuPont is in settlement negotiations with EPA and DOJ.

LaPorte Plant, LaPorte, Texas

EPA conducted a multimedia inspection at the LaPorte facility in January of 2008. DuPont, EPA and DOJ began discussions in the fall of 2011 relating primarily to the management of certain materials in the facility's wastewater treatment system. These negotiations continue.

ITEM 4. MINE SAFETY DISCLOSURES

Information regarding mine safety and other regulatory actions at the company's surface mine in Starke, Florida is included in Exhibit 95 to this report.

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Part II

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

Market for Registrant's Common Equity and Related Stockholder Matters

The company's common stock is listed on the New York Stock Exchange, Inc. (symbol DD) and certain non-U.S. exchanges. The number of record holders of common stock was approximately 77,000 at January 31, 2012.

Holders of the company's common stock are entitled to receive dividends when they are declared by the Board of Directors. While it is not a guarantee of future conduct, the company has continuously paid a quarterly dividend since the fourth quarter 1904. Dividends on common stock and preferred stock are usually declared in January, April, July and October. When dividends on common stock are declared, they are usually paid mid March, June, September and December. Preferred dividends are paid on or about the 25th of January, April, July and October. The Stock Transfer Agent and Registrar is Computershare Trust Company, N.A.

The company's quarterly high and low trading stock prices and dividends per common share for 2011 and 2010 are shown below.

	Market Prices		Per Share Dividend Declared
	High	Low	
2011			
Fourth Quarter	\$49.92	\$37.10	\$0.41
Third Quarter	56.20	39.94	0.41
Second Quarter	57.00	48.64	0.41
First Quarter	56.19	47.22	0.41
2010			
Fourth Quarter	\$50.17	\$44.21	\$0.41
Third Quarter	45.87	33.73	0.41
Second Quarter	41.45	33.66	0.41
First Quarter	39.04	31.88	0.41

Issuer Purchases of Equity Securities

There were no purchases of the company's common stock during the three months ended December 31, 2011.

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Part II

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

Stock Performance Graph

The following graph presents the cumulative five-year total return for the company's common stock compared with the S&P 500 Stock Index and the Dow Jones Industrial Average. For 2011, the company replaced its self-constructed peer group with the Dow Jones Industrial Average. The total return for the company's old peer group consisting of 3M Company; Abbott Laboratories; Air Products & Chemicals, Inc.; Baxter International Inc.; The Boeing Company; Caterpillar Inc.; Eastman Kodak Company; Emerson Electric Co.; Hewlett-Packard Company; Honeywell International Inc.; Ingersoll-Rand plc; Johnson & Johnson; Johnson Controls, Inc.; Kimberly-Clark Corporation; Merck & Co. Inc.; Monsanto Company; Motorola Inc.; The Procter & Gamble Company; and United Technologies Corporation has also been included.

Stock Performance Graph

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
DuPont	\$100	\$93	\$56	\$79	\$122	\$116
S&P 500 Index	100	105	66	84	97	99
Dow Jones Industrial Average	100	109	74	91	104	112
Old Peer Group	100	118	87	104	111	112

The graph assumes that the values of DuPont Common Stock, the S&P 500 Stock Index, the Dow Jones Industrial Average and the old peer group of companies were each \$100 on December 31, 2006 and that all dividends were reinvested. The old peer group is weighted by market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions, except per share)

	2011	2010	2009	2008	2007
Summary of operations					
Net sales	\$37,961	\$31,505	\$26,109	\$30,529	\$29,378
Income before income taxes	\$4,282	\$3,711	\$2,184	\$2,391	\$3,743
Provision for income taxes	\$772	\$659	\$415	\$381	\$748
Net income attributable to DuPont	\$3,474	\$3,031	—		
Sales and maturities of marketable securities	303.2	—			
Net cash provided by (used in) investing activities	171.5	(34.2)		
Cash flows from financing activities:					
Repurchase of common stock - payroll tax withholdings on equity awards	(19.4) (44.7)		
Repurchase of common stock - stock repurchase program	(284.0) (172.5)		
Dividends paid	(67.1) (59.1)		
Net proceeds from exercise of stock options	2.4	14.4			
Net cash used in financing activities	(368.1) (261.9)		
Net increase in cash and cash equivalents	352.4	64.7			
Cash and cash equivalents at beginning of period	733.3	1,616.8			
Cash and cash equivalents at end of period	\$1,085.7	\$1,681.5			
Supplemental cash flow disclosures:					
Income taxes paid	\$1.6	\$7.2			

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and footnote disclosures, normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted pursuant to those rules and regulations. However, in management’s opinion, the financial information reflects all adjustments, including those of a normal recurring nature, necessary to present fairly the results of operations, financial position, and cash flows of the Company for the periods presented. The results of operations, financial position, and cash flows for the Company during the interim periods are not necessarily indicative of those expected for the full year. This information should be read in conjunction with the Company’s financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 28, 2018, filed with the SEC on November 15, 2018, as amended by Amendment No. 1 to such Annual Report on Form 10-K, filed with the SEC on January 25, 2019 (the “2018 10-K”).

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

The Company’s fiscal year ends on the Friday closest to September 30. Fiscal 2019 consists of 52 weeks and ends on September 27, 2019. Fiscal 2018 consisted of 52 weeks and ended on September 28, 2018. The first quarters ended for fiscal 2019 and 2018 each consisted of 13 weeks, and ended on December 28, 2018, and December 29, 2017, respectively.

Recently Adopted Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board (“FASB”) deferred the effective date of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The Company adopted ASU 2014-09 at the beginning of the first quarter of fiscal 2019 using the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to the opening retained earnings balance. The Company has determined the impact of the new revenue standard on its business processes, systems, controls and consolidated financial statements is not material. Refer to Note 2, Revenue Recognition, for additional information.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), Intra-entity Transfers of an Asset Other than Inventory (“ASU 2016-16”). This ASU provides guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The Company adopted ASU 2016-16 during the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements. In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 320), (“ASU 2016-13”). This ASU requires a financial asset (or a group of financial assets) measured on the basis of amortized cost to be presented at the net amount expected to be collected. This ASU requires that the income statement reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This ASU requires that credit losses of debt securities designated as available-for-sale be recorded through an allowance for credit losses. The ASU also limits the credit loss to the amount by which fair value is below

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amortized cost. The Company adopted ASU 2016-13 during the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 320), ("ASU 2016-01"). This ASU provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The Company adopted ASU 2016-01 during the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-based Payments ("ASU 2018-07"). This ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The effective date for the standard is for interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, but no earlier than the Company's adoption date of Topic 606. The new guidance is required to be applied retrospectively with the cumulative effect recognized at the date of initial application. The Company will early adopt ASU 2018-07 during fiscal 2019 and does not expect it to have a material impact on the consolidated financial statements.

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

Supplemental Cash Flow Information

At December 28, 2018, the Company had \$13.7 million accrued to other long-term liabilities for capital equipment, and \$43.0 million accrued to accounts payable for capital equipment. At September 28, 2018, the Company had \$13.9 million accrued to other long-term liabilities for capital equipment, and \$94.1 million accrued to accounts payable for capital equipment. These amounts accrued at December 28, 2018, and September 28, 2018, for capital equipment purchases have been excluded from the consolidated statements of cash flows for the three months ended December 28, 2018, and September 28, 2018, respectively, and are expected to be paid in subsequent periods.

2. REVENUE RECOGNITION

Change in Accounting Policy

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), in the first quarter of fiscal 2019 for open contracts not completed as of the adoption date using the modified retrospective approach. The impact from the cumulative effect adjustment was not material and comparative information for prior periods has not been adjusted. The impact of applying the new standard on the Company's consolidated financial statements for the quarter ended December 28, 2018, was not material, except for an increase in accounts receivable and other current liabilities in the amount of \$32.8 million to reflect customer credits as a liability.

Revenue Recognition Policy

The Company derives its revenue primarily from the sale of semiconductor products under individual customer purchase orders, some of which have underlying master sales agreements that specify terms governing the product sales. In the absence of a sales agreement, the Company's standard terms and conditions apply. Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company

applies a five-step approach as defined in the new standard in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the corresponding performance obligation is satisfied.

Performance Obligations

Each distinct promise to transfer products is considered to be an identified performance obligation for which revenue is recognized at a point in time upon transfer of control of the products to the customer. Transfer of control occurs upon shipment to the distributor or direct customer or when products are pulled from consignment inventory by the customer. Point in time recognition was determined as products manufactured under non-cancellable orders create an asset with an alternative use to the Company. Returns under the Company's general assurance warranty of products have not been material and warranty-

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related services are not considered a separate performance obligation. As of December 28, 2018, the amount of remaining performance obligation that has not been recognized as revenue is not material.

Transaction Price

Pricing adjustments and estimates of returns are treated as variable consideration for purposes of determining the transaction price. Sales returns are generally accepted at the Company's discretion or from distributors with stock rotation rights. Stock rotation allows distributors limited levels of returns and is based on the distributor's prior purchases. Price protection represents price discounts granted to certain distributors and is based on negotiations on sales to end customers. Variable consideration is estimated using the expected value method considering all reasonably available information, including the Company's historical experience and its current expectations, and is reflected in the transaction price when sales are recorded. The Company records net revenue excluding taxes collected on its sales to trade customers.

Contract Balances

Accounts receivable represents the Company's unconditional right to receive consideration from its customer. Payments are due within one year of invoicing and do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the consolidated balance sheet in any of the periods presented. All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.

Disaggregate Revenue

The Company has a single reportable operating segment which designs, develops, manufactures and markets similar proprietary semiconductor products, including intellectual property. In reaching this conclusion, management considers the definition of the chief operating decision maker ("CODM"), how the business is defined by the CODM, the nature of the information provided to the CODM and how that information is used to make operating decisions, allocate resources and assess performance. The Company's CODM is the president and chief executive officer. The results of operations provided to and analyzed by the CODM are at the consolidated level, and accordingly, key resource decisions and assessment of performance are performed at the consolidated level. The Company assesses its determination of operating segments at least annually.

The Company disaggregates revenue from contracts with customers by geography as it believes that doing so best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Net revenue by geographic area presented based upon the location of the original equipment manufacturers' ("OEMs") headquarters are as follows (in millions):

	Three Months Ended	
	December 28, 2018	
	December 28, 2018	December 29, 2017
United States	\$600.1	\$ 626.8
China	194.5	199.6
South Korea	99.1	118.3
Taiwan	40.7	72.3
Europe, Middle East and Africa	32.7	29.4
Other Asia-Pacific	4.9	5.5
Total	\$972.0	\$ 1,051.9

The Company's revenue to external customers is generated principally from the sale of semiconductor products that facilitate various wireless communication applications. Accordingly, the Company considers its product offerings to be similar in nature and therefore not segregated for reporting purposes.

For the three months ended December 28, 2018, and December 29, 2017, one customer accounted for 58% and 56%, respectively, of the Company's net revenue.

3. MARKETABLE SECURITIES

The Company's portfolio of available-for-sale marketable securities consists of the following (in millions):

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	Current		Noncurrent	
	December 28, 2018	September 28, 2018	December 28, 2018	September 28, 2018
Available for sale:	28,	28,	28,	28,
	2018	2018	2018	2018
U.S. Treasury and government	\$7.9	\$ 65.0	\$—	\$ —
Corporate bonds and notes	1.4	204.1	—	12.0
Municipal bonds	2.2	2.0	2.7	0.8
Other government	1.9	23.0	—	10.0
Total	\$13.4	\$ 294.1	\$2.7	\$ 22.8

The contractual maturities of noncurrent available-for-sale marketable securities were due within two years or less. There were no unrealized gains or losses at December 28, 2018, and \$0.1 million in unrealized losses on Municipal bonds at September 28, 2018.

4. FAIR VALUE

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

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

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

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

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

The Company measures certain assets and liabilities at fair value on a recurring basis such as its financial instruments. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three months ended December 28, 2018.

Contingent consideration related to business combinations is recorded as a Level 3 liability because management uses significant judgments and unobservable inputs to determine the fair value. The Company reassesses the fair value of its contingent consideration liabilities on a quarterly basis and records any fair value adjustments to earnings in the period that they are determined. The fair value of the contingent consideration was determined using a probabilistic Black-Scholes pricing model calibrated to the expected revenue forecast to be generated from the acquired business over a one-year period.

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

	As of December 28, 2018				As of September 28, 2018			
	Fair Value Measurements				Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents*	\$1,085.7	\$1,084.7	\$1.0	\$—	\$79.3	\$29.7	\$49.6	\$—

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U.S. Treasury and government securities	8.0	—	8.0	—	65.0	15.0	50.0	—
Corporate bonds and notes	1.4	—	1.4	—	216.0	—	216.0	—
Municipal bonds	4.8	—	4.8	—	2.8	—	2.8	—
Other government securities	1.9	—	1.9	—	33.1	—	33.1	—
Total	\$1,101.8	\$1,084.7	\$17.1	\$—	\$396.2	\$44.7	\$351.5	\$—
Liabilities								
Contingent consideration	\$3.1	\$—	\$—	\$3.1	\$3.1	\$—	\$—	\$3.1
Total	\$3.1	\$—	\$—	\$3.1	\$3.1	\$—	\$—	\$3.1

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* Cash equivalents included in Levels 1 and 2 consist of money market funds and corporate bonds and notes, foreign government bonds, commercial paper, and agency securities purchased with less than ninety days until maturity.

There were no changes to the fair value of the Level 3 liabilities during the three months ended December 28, 2018.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company's non-financial assets and liabilities, such as goodwill, intangible assets, and other long-lived assets resulting from business combinations, are measured at fair value using income approach valuation methodologies at the date of acquisition and are subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three months ended December 28, 2018.

5. INVENTORY

Inventory consists of the following (in millions):

	As of	
	December 28, 2018	September 28, 2018
Raw materials	\$21.5	\$ 20.2
Work-in-process	301.5	340.7
Finished goods	162.5	124.8
Finished goods held on consignment by customers	7.6	4.5
Total inventory	\$493.1	\$ 490.2

6. PROPERTY, PLANT AND EQUIPMENT, NET

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

	As of	
	December 28, 2018	September 28, 2018
Land and improvements	\$11.7	\$ 11.6
Buildings and improvements	258.7	238.0
Furniture and fixtures	31.8	31.5
Machinery and equipment	2,151.6	2,089.6
Construction in progress	163.3	179.0
Total property, plant and equipment, gross	2,617.1	2,549.7
Accumulated depreciation	(1,476.5)	(1,408.8)
Total property, plant and equipment, net	\$1,140.6	\$ 1,140.9

7. GOODWILL AND INTANGIBLE ASSETS

There were no changes to the carrying amount of goodwill during the three months ended December 28, 2018.

The Company tests its goodwill for impairment annually as of the first day of its fourth fiscal quarter and in interim periods if certain events occur indicating the carrying value of goodwill may be impaired. There were no indicators of impairment noted during the three months ended December 28, 2018.

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Intangible assets consist of the following (in millions):

		As of December 28, 2018			As of September 28, 2018		
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	3.7	\$28.7	\$ (14.9)	\$ 13.8	31.7	(13.2)	18.5
Developed technology and other	5.3	89.9	(30.8)	59.1	89.9	(23.5)	66.4
Trademarks	3.0	1.6	(0.9)	0.7	1.6	(0.8)	0.8
Capitalized software	3.0	18.0	(7.5)	10.5	18.0	(6.0)	12.0
IPR&D		46.0	—	46.0	46.0	—	46.0
Total intangible assets		\$184.2	\$ (54.1)	\$ 130.1	\$187.2	\$ (43.5)	\$ 143.7

Fully amortized intangible assets have been eliminated from both the gross and accumulated amortization amounts.

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

	Remaining 2019	2020	2021	2022	2023	Thereafter
Amortization expense, cost of goods sold	\$ 18.1	\$21.9	\$0.1	\$0.1	\$0.1	\$ 1.9
Amortization expense, operating expense	15.7	12.4	9.0	1.0	1.0	2.8
Total amortization expense	\$ 33.8	\$34.3	\$9.1	\$1.1	\$1.1	\$ 4.7

8. INCOME TAXES

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

	Three Months Ended	
	December 28, 2018	December 29, 2017
United States income taxes	\$29.5	\$ 304.9
Foreign income taxes	9.4	10.3
Provision for income taxes	\$38.9	\$ 315.2

Effective tax rate 12.0 % 81.7 %

The difference between the Company's effective tax rate and the 21.0% United States federal statutory rate for the three months ended December 28, 2018, resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, a benefit from foreign derived intangible income deduction ("FDII"), and research and experimentation and foreign tax credits earned, partially offset by a tax on global intangible low-taxed income ("GILTI"), and an increase in tax expense related to a change in the reserve for uncertain tax positions.

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

\$16.2 million related to windfall stock deductions. The one-time charge related to the mandatory deemed repatriation tax was subsequently reduced to \$224.6 million in the measurement period established under Staff Accounting Bulletin 118, primarily due to a change in the interpretation of the definition of cash within the computation.

On December 22, 2017, the President of the United States signed into law new tax legislation (the “Tax Reform Act”). In addition to the introduction of a modified territorial tax system, the Tax Reform Act includes two new sets of provisions aimed at preventing

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or decreasing U.S. tax base erosion—the GILTI provisions and the base erosion and anti-abuse tax (“BEAT”) provisions. The GILTI provisions impose taxes on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company is making an accounting policy election to account for GILTI as a component of tax expense in the period in which the Company is subject to the rules and therefore will not provide any deferred tax impacts of GILTI in its consolidated financial statements for the quarter ended December 28, 2018. The BEAT provisions eliminate the deduction of certain base-erosion payments made to related foreign corporations, and impose a minimum tax if greater than regular tax. These BEAT provisions are effective for the Company beginning in fiscal 2019. The Company has analyzed the BEAT provisions for the quarter ended December 28, 2018, and is not subject to the minimum tax imposed by the BEAT provisions. Other significant provisions of the Tax Reform Act that are effective in fiscal 2019 and that have an impact on the Company’s income taxes, include the inclusion of performance-based compensation in determining the excessive compensation limitation and the benefit related to FDII.

Accrued taxes of \$71.6 million and \$62.5 million have been included in other current liabilities within the consolidated balance sheets as of December 28, 2018, and December 29, 2017, respectively. The \$224.6 million deemed repatriation tax is payable over the next eight years, \$18.0 million per year for each of the next five years, followed by payments of \$33.6 million, \$44.9 million, and \$56.1 million in years six through eight, respectively. The Company has accrued \$206.6 million of the deemed repatriation tax in long-term liabilities within the consolidated balance sheet as of December 28, 2018.

9. COMMITMENTS AND CONTINGENCIES

Legal Matters

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

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

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

Guarantees and Indemnifications

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

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

10. STOCKHOLDERS' EQUITY

Stock Repurchase Program

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On January 31, 2018, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to repurchase up to \$1.0 billion of its common stock from time to time prior to January 31, 2020, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. During the three months ended December 28, 2018, the Company paid \$284.0 million (including commissions) in connection with the repurchase of 4.0 million shares of its common stock (paying an average price of \$71.00 per share). As of December 28, 2018, \$129.0 million remained available under the existing stock repurchase authorization.

On January 30, 2019, the Board of Directors approved a new stock repurchase program, pursuant to which the Company is authorized to repurchase up to \$2.0 billion of its common stock from time to time prior to January 30, 2021, on the open market or in privately negotiated transactions, as permitted by securities laws and other legal requirements. This newly authorized stock repurchase plan replaces in its entirety the aforementioned January 31, 2018, plan. The timing and amount of any shares of the Company's common stock that are repurchased under the new repurchase program will be determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. The Company currently expects to fund the repurchase program using the Company's working capital.

Dividends

On February 5, 2019, the Company announced that the Board of Directors had declared a cash dividend on its common stock of \$0.38 per share, payable on March 19, 2019, to the Company's stockholders of record as of the close of business on February 26, 2019.

During the three months ended December 28, 2018, the Company declared and paid a \$0.38 dividend per common share with a total charge to retained earnings of \$67.1 million

Share-based Compensation

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

	Three Months Ended	
	December 28,	December 29,
	2018	2017
Cost of goods sold	\$3.6	\$ 4.1
Research and development	12.5	11.2
Selling, general and administrative	4.7	10.5
Total share-based compensation	\$20.8	\$ 25.8

On November 15, 2017, the Company agreed to potentially issue not more than 1% of its common stock to an unaffiliated third party as a contingent consideration for its role under a multi-year collaboration agreement, upon the achievement of certain product sales milestones. The shares have been valued utilizing a probability weighted series of Black-Scholes pricing models and could be issued after mid-2020. The shares will be marked to estimated fair value each reporting period through earnings. The amount recorded in the statement of operations within selling, general and administrative expense for the three months ended December 28, 2018, is not material.

11. EARNINGS PER SHARE

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

	Three Months Ended	
	December 28, 2018	
	December 29, 2017	
	2018	2017
Net income	\$284.9	\$ 70.4
Weighted average shares outstanding – basic	176.6	183.1
Dilutive effect of equity based awards	1.1	2.4
Weighted average shares outstanding – diluted	177.7	185.5
Net income per share – basic	\$ 1.61	\$ 0.38
Net income per share – diluted	\$ 1.60	\$ 0.38
Anti-dilutive common stock equivalents	1.7	0.4

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of the Company's common stock outstanding during the period. The calculation of diluted earnings per share includes the dilutive effect of equity based awards that were outstanding during the three months ended December 28, 2018, and December 29, 2017, using the treasury stock method. Certain of the Company's outstanding share-based awards, noted in the table above, were excluded because they were anti-dilutive, but they could become dilutive in the future.

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

This report and other documents we have filed with the SEC contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the "safe harbor" created by those sections. Words such as "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "should," "will," "would," and similar expressions or variations or negatives of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new products, enhancements of technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements involve inherent risks and uncertainties and actual results and outcomes may differ materially and adversely from the results and outcomes discussed in or anticipated by the forward-looking statements. A number of important factors could cause actual results to differ materially and adversely from those in the forward-looking statements. We urge you to consider the risks and uncertainties discussed in this Quarterly Report on Form 10-Q and the 2018 10-K, under the heading "Risk Factors" and in the other documents we have filed with the SEC in evaluating our forward-looking statements. We have no plans, and undertake no obligation, to revise or update our forward-looking statements to reflect any event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 28, 2018, AND DECEMBER 29, 2017

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

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	Three Months Ended		
	December 28, 2018, December 29, 2017		
	2018	2017	
Net revenue	100.0%	100.0	%
Cost of goods sold	50.1	49.0	
Gross profit	49.9	51.0	
Operating expenses:			
Research and development	11.2	9.3	
Selling, general and administrative	4.9	4.9	
Amortization of intangibles	0.8	0.4	
Total operating expenses	16.9	14.6	
Operating income	33.0	36.4	
Other income, net	0.3	0.2	
Income before income taxes	33.3	36.6	
Provision for income taxes	4.0	30.0	
Net income	29.3	% 6.6	%

OVERVIEW

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

GENERAL

During the three months ended December 28, 2018, the following key factors contributed to our overall results of operations, financial position and cash flows:

Net revenue decreased by 7.6% to \$972.0 million for the three months ended December 28, 2018, as compared with the corresponding period in fiscal 2018. This decrease in revenue was primarily driven by weakness in smartphone demand, partially offset by increasing radio frequency (“RF”) content per smartphone.

Our ending cash, cash equivalents and marketable securities balance increased approximately 4.9% to \$1,101.8 million as of December 28, 2018, from \$1,050.2 million as of September 28, 2018. This increase in cash, cash equivalents and marketable securities was primarily the result of cash generated from operations of \$549.0 million, partially offset by the repurchase of 4.0 million shares of common stock for \$284.0 million, capital expenditures of \$129.5 million, and dividend payments of \$67.1 million during the three months ended December 28, 2018.

NET REVENUE

	Three Months Ended		
	December 28, 2018, December 29, 2017		
	2018	Change	2017
(dollars in millions)			
Net revenue	\$972.0	(7.6)%	\$ 1,051.9

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 our fourth and first fiscal quarters, primarily as a result of increased

worldwide production of consumer electronics in anticipation of increased holiday sales, whereas our second and third fiscal quarters are typically lower and in line with seasonal industry trends.

We generated net revenue of \$972.0 million for the three months ended December 28, 2018, a decrease of \$79.9 million or 7.6%, as compared with \$1,051.9 million for the corresponding period in fiscal 2018. This decrease in net revenue is primarily related to weakness in smartphone demand, partially offset by increasing RF content per smartphone.

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GROSS PROFIT

	Three Months Ended			
	December 28, 2018	Change	December 29, 2017	
(dollars in millions)				
Gross profit	\$485.1	(9.6)%	\$ 536.8	
% of net revenue	49.9	%	51.0	%

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.

The \$51.7 million decrease in gross profit for the three months ended December 28, 2018, as compared with the corresponding period in fiscal 2018, was primarily the result of lower average selling prices and lower unit volumes with a gross profit impact of \$170.5 million. These negative impacts were partially offset by favorable product mix that positively impacted gross profit by \$119.8 million. Gross profit margin decreased to 49.9% of net revenue for the three months ended December 28, 2018, as compared with 51.0% in the corresponding period in fiscal 2018.

RESEARCH AND DEVELOPMENT

	Three Months Ended			
	December 28, 2018	Change	December 29, 2017	
(dollars in millions)				
Research and development	\$109.2	11.4%	\$ 98.0	
% of net revenue	11.2	%	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 expenses for the three months ended December 28, 2018, as compared with the corresponding period in fiscal 2018, was primarily related to an increase in employee-related compensation expense and product development-related expenses. Research and development expense increased as a percentage of net revenue as a result of our increased investment in developing new technologies and products.

SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended			
	December 28, 2018	Change	December 29, 2017	
(dollars in millions)				
Selling, general and administrative	\$47.8	(6.8)%	\$ 51.3	
% of net revenue	4.9	%	4.9	%

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 decrease in selling, general and administrative expenses for the three months ended December 28, 2018, as compared with the corresponding period in fiscal 2018, was primarily related to a decrease in share-based compensation expense. Selling, general and administrative expenses remained consistent as a percentage of net revenue.

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AMORTIZATION OF INTANGIBLES

	Three Months Ended			
	December 28, 2018	Change	December 29, 2017	
(dollars in millions)				
Amortization of purchased intangibles	\$ 14.0	250.0%	\$ 4.0	
Amortization of capitalized software	1.5	100.0%	—	
Total amortization of intangibles	\$ 15.5		\$ 4.0	
% of net revenue	1.6	%	0.4	%

During the three months ended December 28, 2018, \$8.1 million and \$7.4 million in amortization of intangibles were included in cost of goods sold and selling, general and administrative expense, respectively. During the three months ended December 29, 2017, \$4.0 million in amortization of intangibles was included in selling, general and administrative expense.

The increase in amortization expense for the three months ended December 28, 2018, as compared with the corresponding period in fiscal 2018, was primarily due to amortization attributable to the Avnera acquisition completed in the fourth quarter of fiscal 2018.

PROVISION FOR INCOME TAXES

	Three Months Ended			
	December 28, 2018	Change	December 29, 2017	
(dollars in millions)				
Provision for income taxes	\$38.9	(87.7)%	\$ 315.2	
% of net revenue	4.0	%	30.0	%

We recorded a provision for income taxes of \$38.9 million (which consisted of \$29.5 million and \$9.4 million related to United States and foreign income taxes, respectively) for the three months ended December 28, 2018.

The effective tax rate for the three months ended December 28, 2018, was 12.0%, as compared with 81.7% for the three months ended December 29, 2017. The difference between our three month effective tax rate of 12.0% and the 21% United States federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, a benefit from foreign derived intangible income deduction, and research and experimentation and foreign tax credits earned, partially offset by a tax on global intangible low-taxed income, and an increase in tax expense related to a change in the reserve for uncertain tax positions.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended	
	December 28, 2018	December 29, 2017
(in millions)		
Cash and cash equivalents at beginning of period	\$733.3	\$ 1,616.8
Net cash provided by operating activities	549.0	360.8
Net cash provided by (used in) investing activities	171.5	(34.2)
Net cash used in financing activities	(368.1)	(261.9)
Cash and cash equivalents at end of period	\$1,085.7	\$ 1,681.5

Cash provided by operating activities:

Cash provided by operating activities consists of net income for the period adjusted for certain non-cash items and changes in certain operating assets and liabilities. During the three months ended December 28, 2018, we generated \$549.0 million of cash from operating activities, an increase of \$188.2 million as compared with the \$360.8 million generated during the three months ended December 29, 2017. The increase in cash from operating activities during the three months ended December 28, 2018, was primarily related to an increase in cash generated from collecting receivables and reduced payments of payables totaling \$218.7 million.

Cash provided by investing activities:

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Cash provided by investing activities consists of cash received related to the sale or maturity of marketable securities, partially offset by cash paid for capital expenditures and cash paid related to the purchase of marketable securities. Cash provided by investing activities was \$171.5 million during the three months ended December 28, 2018, as compared with \$34.2 million cash used in investing activities during the three months ended December 29, 2017. Purchases of marketable securities were \$2.2 million and sales and maturities of marketable securities were \$303.2 million during the three months ended December 28, 2018. The cash used for capital expenditures was \$129.5 million in the three months ended December 28, 2018, 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.

Cash used in financing activities:

Cash used in financing activities consists primarily of cash transactions related to equity. During the three months ended December 28, 2018, we had net cash outflows from financing activities of \$368.1 million, as compared with net cash outflows from financing activities of \$261.9 million during the three months ended December 29, 2017. During the three months ended December 28, 2018, we had the following significant uses of cash:

- \$284.0 million related to our repurchase of 4.0 million shares of our common stock pursuant to the stock repurchase program approved by our Board of Directors on January 31, 2018;
- \$67.1 million related to the payment of cash dividends on our common stock; and
- \$19.4 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 net proceeds from employee stock option exercises of \$2.4 million during the three months ended December 28, 2018.

Liquidity:

Cash and cash equivalent balances were \$1,085.7 million as of December 28, 2018, representing an increase of \$352.4 million from September 28, 2018. The increase resulted from \$549.0 million in cash generated from operations and \$301.0 million in net sales and maturities of marketable securities, partially offset by \$284.0 million used to repurchase 4.0 million shares of stock, \$67.1 million in cash dividend payments, \$19.4 million used to repurchase shares related to payroll tax withholdings on equity awards, and \$129.5 million in capital expenditures. Based on our historical results of operations, we expect that our cash, cash equivalents and marketable securities 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 marketable securities that are available to meet near-term cash requirements including: term deposits, certificate of deposits, money market funds, U.S. Treasury securities, agency securities, other government securities, corporate debt securities and commercial paper.

CONTRACTUAL OBLIGATIONS

Our contractual obligations disclosure in the 2018 10-K has not materially changed since we filed that report.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Investment and Interest Rate Risk

Our exposure to interest rate and general market risks relates principally to our investment portfolio, which consists of cash and cash equivalents (money market funds and marketable securities purchased with less than ninety days until maturity) that total approximately \$1,085.7 million and marketable securities (U.S. Treasury and government securities, corporate bonds and notes,

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municipal bonds, other government securities) that total approximately \$13.4 million and \$2.7 million within short-term and long-term marketable securities, respectively, as of December 28, 2018.

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. Our marketable securities consist of short-term and long-term maturity periods between 90 days and two years. Credit risk associated with our investments is not material because our investments are diversified across several types of securities with high credit ratings, which reduces the amount of credit exposure to any one investment.

Based on our results of operations for the three months ended December 28, 2018, a hypothetical reduction in the interest rates on our cash, cash equivalents, and other investments to zero would result in an immaterial reduction of interest income with a de minimis impact on income before taxes.

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

Foreign Exchange Rate Risk

Substantially all sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, thereby reducing the impact of foreign exchange rate fluctuations on our results. A percentage of our international operational expenses are denominated in foreign currencies and exchange rate volatility could positively or negatively impact those operating costs. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Given the relatively small number of customers and arrangements with third-party manufacturers denominated in foreign currencies, we do not believe that foreign exchange volatility has a material impact on our current business or results of operations. However, fluctuations in currency exchange rates could have a greater effect on our business or results of operations in the future to the extent our expenses increasingly become denominated in foreign currencies.

We may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. For the three months ended December 28, 2018, we had no outstanding foreign currency forward or option contracts with financial institutions.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 28, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required

disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on management's evaluation of our disclosure controls and procedures as of December 28, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting

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

PART II. OTHER INFORMATION

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Item 1. Legal Proceedings.

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

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

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

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the 2018 10-K, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in the 2018 10-K.

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

The following table provides information regarding repurchases of common stock made during the three months ended December 28, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
9/29/18-10/26/18	266(2)	\$91.28	—	\$412.8 million
10/27/18-11/23/18	1,503,214(3)	\$72.67	1,250,000	\$323.3 million
11/24/18-12/28/18	2,750,463(4)	\$70.65	2,750,000	\$129.0 million
Total	4,253,943		4,000,000	

(1) The stock repurchase program approved by the Board of Directors on January 31, 2018, authorizes the repurchase of up to \$1.0 billion of our common stock from time to time on the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements. On January 30, 2019, the Board of Directors approved a new \$2.0 billion stock repurchase program that expires on January 30, 2021, and replaces in its entirety the January 31, 2018, plan.

(2) Represents shares repurchased by us at the fair market value of the common stock as of the applicable purchase date, in connection with the satisfaction of tax withholding obligations under equity award agreements.

(3) 1,250,000 shares were repurchased at an average price of \$71.77 per share as part of our stock repurchase program, and 253,214 shares were repurchased by us at the fair market value of the common stock as of the applicable purchase date, in connection with the satisfaction of tax withholding obligations under equity award agreements with an average price of \$77.11 per share.

(4) 2,750,000 shares were repurchased at an average price of \$70.65 per share as part of our stock repurchase program, and 463 shares were repurchased by us at the fair market value of the common stock as of the applicable purchase date, in connection with the satisfaction of tax withholding obligations under equity award agreements with an average price of \$69.56 per share.

On November 15, 2017, we agreed to potentially issue not more than 1% of our common stock to an unaffiliated third party as contingent consideration for its role under a multi-year collaboration agreement. The shares are issuable for no cash payment but only upon the achievement of certain product sale milestones, certain terminations of the agreement or if the Company engages in

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certain competition with the third party. Though the timing is not certain, the Company does not expect achievement of the product sale milestones to occur any time prior to mid-2020. The transaction was made in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act. The Company has agreed to file a registration statement with the Securities and Exchange Commission registering the resale of any issued shares.

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Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by			Filed Herewith
		Form	Reference File No.	Exhibit Filing Date	
10.1	<u>Fiscal Year 2019 Executive Incentive Plan</u>				X
31.1	<u>Certification of the Company's Chief Executive Officer pursuant to Securities Exchange Act of 1934, as amended, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				X
31.2	<u>Certification of the Company's Chief Financial Officer pursuant to Securities Exchange Act of 1934, as amended, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				X
32.1	<u>Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				X
32.2	<u>Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKYWORKS SOLUTIONS, INC.

Date: February 5, 2019 By: /s/ Liam K. Griffin
Liam K. Griffin
President and Chief Executive Officer
(Principal Executive Officer)

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