

SKYWORKS SOLUTIONS INC

Form 10-Q

August 06, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended **June 27, 2008**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number 1-5560
SKYWORKS SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

04-2302115
*(I.R.S. Employer
Identification No.)*

20 Sylvan Road, Woburn, Massachusetts
(Address of principal executive offices)

01801
(Zip Code)

Registrant's telephone number, including area code:

(781) 376-3000

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at July 31, 2008</u>
Common Stock, par value \$.25 per share	164,943,657

SKYWORKS SOLUTIONS, INC.
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FOR THE QUARTER ENDED JUNE 27, 2008
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SKYWORCS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share amounts)

	Three-months		Nine-months Ended	
	Ended	Ended	Ended	Ended
	June 27,	June 29,	June 27,	June 29,
	2008	2007	2008	2007
Net revenues	\$ 215,210	\$ 175,050	\$ 627,451	\$ 551,290
Cost of goods sold	128,776	106,418	378,312	338,640
Gross profit	86,434	68,632	249,139	212,650
Operating expenses:				
Research and development	36,561	30,549	107,236	92,344
Selling, general and administrative	25,975	24,874	74,608	72,652
Amortization of intangible assets	1,101	536	4,904	1,608
Restructuring and special charges		257		5,730
Total operating expenses	63,637	56,216	186,748	172,334
Operating income	22,797	12,416	62,391	40,316
Interest expense	(1,658)	(2,565)	(5,635)	(9,928)
Other income, net	1,064	2,766	4,997	7,824
Income before income taxes	22,203	12,617	61,753	38,212
Provision for income taxes	1,737	1,194	5,536	2,555
Net income	\$ 20,466	\$ 11,423	\$ 56,217	\$ 35,657
Per share information:				
Net income, basic	\$ 0.13	\$ 0.07	\$ 0.35	\$ 0.22
Net income, diluted	\$ 0.12	\$ 0.07	\$ 0.34	\$ 0.22
Number of weighted-average shares used in per share computations, basic	162,095	158,606	161,166	160,159
Number of weighted-average shares used in per share computations, diluted	164,649	160,032	163,323	161,278

The following table summarizes share-based compensation expense for the three and nine-month periods ended June 27, 2008 and June 29, 2007 which is included in the financial statement line items above as follows:

	Three-months		Nine-months	
	Ended	Ended	Ended	Ended
	June 27,	June 29,	June 27,	June 29,

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(In thousands)	2008	2007	2008	2007
Cost of goods sold	651	475	2,162	876
Research and development	2,436	1,545	6,202	3,653
Selling, general and administrative	3,025	1,625	8,398	5,187

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

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SKYWORKS SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	June 27, 2008 (Unaudited)	As of September 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 248,015	\$ 241,577
Short-term investments		5,700
Restricted cash	5,962	6,502
Receivables, net of allowance for doubtful accounts of \$1,613 and \$1,662	169,289	167,319
Inventories	96,119	82,109
Other current assets	10,282	10,511
Total current assets	529,667	513,718
Property, plant and equipment, net	171,636	153,516
Goodwill	489,961	480,890
Intangible assets, net	21,157	13,442
Deferred tax assets	14,536	14,459
Other assets	14,051	13,883
Total assets	\$ 1,241,008	\$1,189,908
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 50,000	\$ 99,335
Accounts payable	69,239	56,417
Accrued compensation and benefits	29,168	28,392
Other current liabilities	8,444	13,079
Total current liabilities	156,851	197,223
Long-term debt, less current maturities	200,000	200,000
Other long-term liabilities	5,773	6,338
Total liabilities	362,624	403,561
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value: 25,000 shares authorized, no shares issued		
Common stock, \$0.25 par value: 525,000 shares authorized; 169,570 shares issued and 164,880 shares outstanding at June 27, 2008 and 165,593 shares issued and 161,101 shares outstanding at September 28, 2007	41,220	40,275

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Additional paid-in capital	1,420,336	1,382,230
Treasury stock	(33,581)	(31,855)
Accumulated deficit	(547,872)	(604,089)
Accumulated other comprehensive loss	(1,719)	(214)
Total stockholders' equity	878,384	786,347
Total liabilities and stockholders' equity	\$ 1,241,008	\$1,189,908

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

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SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine-months Ended	
	June 27, 2008	June 29, 2007
Cash flows from operating activities:		
Net income	\$ 56,217	\$ 35,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	16,762	9,716
Depreciation	33,434	28,829
Charge in lieu of income tax expense	4,709	1,515
Amortization of intangible assets	5,522	1,608
Amortization of deferred financing costs	1,332	1,800
Contribution of common shares to savings and retirement plans	6,378	5,259
Non-cash restructuring expense		419
Deferred income taxes	(313)	(324)
Loss on sales of assets	292	226
Provision for (losses) recoveries on accounts receivable	(48)	1,725
Changes in assets and liabilities:		
Receivables	(1,922)	(7,271)
Inventories	(8,427)	(1,989)
Other current and long-term assets	619	(174)
Accounts payable	12,822	(15,396)
Other current and long-term liabilities	(5,302)	(6,839)
Net cash provided by operating activities	122,075	54,761
Cash flows from investing activities:		
Capital expenditures	(51,846)	(30,565)
Payments for acquisitions	(32,627)	
Sale of short-term investments	10,000	587,183
Purchase of short-term investments	(7,500)	(633,933)
Net cash used in investing activities	(81,973)	(77,315)
Cash flows from financing activities:		
Proceeds from notes offering		200,000
Payments on long-term borrowings		(130,000)
Deferred financing costs		(6,189)
Retirement of Junior Notes	(49,335)	
Change in restricted cash	541	(200)
Repurchase of common stock	(1,727)	(30,764)
Net proceeds from exercise of stock options	16,857	6,153

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Net cash provided by (used in) financing activities	(33,664)	39,000
Net increase in cash and cash equivalents	6,438	16,446
Cash and cash equivalents at beginning of period	241,577	136,749
Cash and cash equivalents at end of period	\$ 248,015	\$ 153,195
Supplemental cash flow disclosures:		
Taxes paid	\$ 679	\$ 926
Interest paid	\$ 4,159	\$ 10,195

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

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SKYWORKS SOLUTIONS, INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc. (Skyworks or the Company) designs, manufactures and markets a broad range of high performance analog and mixed signal semiconductors that enable wireless connectivity. Our power amplifiers (PAs), front-end modules (FEMs) and integrated radio frequency (RF) solutions can be found in many of the cellular handsets sold by the world's leading manufacturers. Leveraging our core analog technologies, we also offer a diverse portfolio of linear integrated circuits (ICs) that support automotive, broadband, cellular infrastructure, industrial and medical applications.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). 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, have been condensed or omitted pursuant to those rules and regulations. However, in the opinion of management, the financial information reflects all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the financial position, results of operations, and cash flows of the Company. The results of operations for the three and nine-month periods ended June 27, 2008 are not necessarily indicative of the results to be 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 Form 10-K for the fiscal year ended September 28, 2007 as filed with the SEC.

The Company's fiscal year ends on the Friday closest to September 30. Fiscal 2007 consisted of 52 weeks and ended on September 28, 2007, and the third quarters of fiscal 2008 and fiscal 2007 each consisted of 13 weeks and ended on June 27, 2008 and June 29, 2007, respectively. Fiscal 2008 will consist of 53 weeks and end on October 3, 2008, with the first three quarters of fiscal 2008 consisting of 13 weeks, and the fourth quarter of fiscal 2008 consisting of 14 weeks.

2. BUSINESS COMBINATIONS

In October 2007, the Company paid \$32.6 million in cash to acquire certain assets from two separate companies. The Company acquired raw materials, die bank, finished goods, proprietary GaAs PA/FEM designs and related intellectual property in a business combination from Freescale Semiconductor. We also acquired sixteen fundamental HBT and RF MEMs patents in an asset acquisition from another company. The purchase accounting on these acquisitions was finalized in March 2008.

The purchase prices as of October 23, 2007 were allocated based upon the fair value of the tangible and intangible assets acquired to allocate the purchase prices in accordance with Statement of Financial Accounting Standards (SFAS) 141, *Business Combinations*. Based upon those calculations, the Company has definitively concluded that customer relationships have a fair value of \$8.5 million, order backlog has a fair value of \$1.6 million, developed technology has a fair value of \$1.3 million, the Master Foundry Services agreement has a fair value of \$0.9 million, patents have a fair value of \$0.9 million, inventories have a fair value of \$5.6 million and the remaining purchase price of \$13.8 million is allocated to goodwill. The intangible assets will be amortized over periods ranging from .5 years to 5 years.

The Company's primary reasons for the above acquisitions were to expand its market share in power amplifiers and front end modules at certain existing customers, and increase the probability of future design wins with these customers. The significant factors that resulted in recognition of goodwill in one of the transactions were: (a) the purchase price was based on cash flow projections assuming the sale of the acquired inventory and the sale of the Company's next generation product (a derivative of the acquired inventory); and (b) there were very few tangible and identifiable intangible assets that qualified for recognition.

Table of Contents**SKYWORKS SOLUTIONS, INC.****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Continued**

The Consolidated Financial Statements include the operating results of the acquired business from the date of acquisition. Pro forma results of operations for these acquisitions completed during the nine-month period ended June 27, 2008 have not been presented because the effects of the acquisitions were not material to the Company's financial results.

3. AVAILABLE FOR SALE SECURITIES

The Company accounts for its investment in debt and equity securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and classifies them as available for sale. These securities consist of \$3.2 million in amortized cost of auction rate securities (ARS), which are long-term debt instruments which provide liquidity through a Dutch auction process that resets interest rates each month. The recent uncertainties in the credit markets have disrupted the liquidity of this process resulting in failed auctions.

In the three and nine-month periods ended June 27, 2008, the carrying value of these securities was reduced by \$0.0 million and \$1.5 million, respectively, reflecting a change in fair value. The Company assessed these declines in fair value to be temporary and recorded this reduction in shareholders' equity in accumulated other comprehensive loss. The Company will continue to closely monitor these ARS and evaluate the appropriate accounting treatment in each reporting period. The Company holds no other auction rate securities.

ARS were classified in prior periods as current assets under Short-term Investments. Given the failed auctions, the Company's ARS are considered to be illiquid until there is a successful auction. Accordingly, the remaining ARS balance has been reclassified to non-current other assets.

4. INVENTORIES

Inventories consist of the following (in thousands):

	June 27, 2008	September 28, 2007
Raw materials	\$ 7,570	\$ 6,624
Work-in-process	58,907	48,128
Finished goods	29,642	27,357
	\$ 96,119	\$ 82,109

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands):

	June 27, 2008	September 28, 2007
Land	\$ 9,423	\$ 9,423
Land and leasehold improvements	4,453	4,394
Buildings	39,998	39,730
Furniture and Fixtures	25,884	24,485
Machinery and equipment	378,897	343,551
Construction in progress	24,866	12,671
	483,521	434,254
Accumulated depreciation and amortization	(311,885)	(280,738)

\$ 171,636 \$ 153,516

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

	Weighted Average Amortization Period (Years)	Gross Carrying Amount	June 27, 2008		September 28, 2007		
			Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		\$ 489,961	\$	\$ 489,961	\$ 480,890	\$	\$ 480,890
Amortized intangible assets							
Developed technology	5-10	\$ 11,850	\$ (7,249)	\$ 4,601	\$ 10,550	\$ (6,399)	\$ 4,151
Customer relationships	5-10	21,210	(8,907)	12,303	12,700	(6,678)	6,022
Patents	3	900	(225)	675			
Other	.5-3	2,649	(2,340)	309	122	(122)	
		36,609	(18,721)	17,888	23,372	(13,199)	10,173
Unamortized intangible assets							
Trademarks		3,269		3,269	3,269		3,269
Total intangible assets		\$ 39,878	\$ (18,721)	\$ 21,157	\$ 26,641	\$ (13,199)	\$ 13,442

Amortization expense related to intangible assets are as follows (in thousands):

	Three-months Ended		Nine-months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Amortization expense	\$1,411	\$536	\$5,522	\$1,608

The changes in the gross carrying amount of goodwill and intangible assets are as follows (in thousands):

	Goodwill and Intangible Assets					Total
	Goodwill	Developed Technology	Customer Relationships	Trademarks	Patents and Other	
Balance as of September 28, 2007	\$ 480,890	\$ 10,550	\$ 12,700	\$ 3,269	\$ 122	\$ 507,531
Additions during period	13,779	1,300	8,510		3,427	27,016
Deductions during period	(4,708)					(4,708)

Balance as of June 27, 2008	\$ 489,961	\$ 11,850	\$ 21,210	\$ 3,269	\$ 3,549	\$ 529,839
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In October 2007, the Company paid \$32.6 million in cash to acquire certain assets from two separate companies resulting in the allocation of approximately \$13.8 million to goodwill. For additional information regarding these acquisitions see Note 2, Business Combinations.

Goodwill was reduced by \$4.7 million in the nine-month period ended June 27, 2008 as a result of the realization of deferred tax assets. The benefit from the recognition of a portion of these deferred items reduces the carrying value of goodwill instead of reducing income tax expense. Accordingly, future realization of certain deferred tax assets will reduce the carrying value of goodwill. The remaining deferred tax assets that could reduce goodwill in future periods are \$13.9 million as of June 27, 2008.

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

	2008	2009	2010	2011	2012
Amortization expense	\$6,933	\$4,406	\$4,406		

Supplemental Plan of Distribution

CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the securities, is acting as principal and will receive an underwriting fee of up to \$12 for each security sold in this offering. The actual underwriting fee will be equal to the selling concession provided to selected dealers, as described in this paragraph. From this underwriting fee, CGMI will pay selected dealers not affiliated with CGMI a variable selling concession of up to \$12 for each security they sell. In addition, CGMI will pay selected dealers not affiliated with CGMI a structuring fee of up to \$2 for each security they sell. For the avoidance of doubt, the fees and selling concessions described in this pricing supplement will not be rebated if we redeem the securities prior to maturity.

See “Plan of Distribution; Conflicts of Interest” in the accompanying product supplement and “Plan of Distribution” in each of the accompanying prospectus supplement and prospectus for additional information.

Valuation of the Securities

CGMI calculated the estimated value of the securities set forth on the cover page of this pricing supplement based on proprietary pricing models. CGMI’s proprietary pricing models generated an estimated value for the securities by estimating the value of a hypothetical package of financial instruments that would replicate the payout on the securities, which consists of a fixed-income bond (the “bond component”) and one or more derivative instruments underlying the economic terms of the securities (the “derivative component”). CGMI calculated the estimated value of the bond component using a discount rate based on our internal funding rate. CGMI calculated the estimated value of the derivative component based on a proprietary derivative-pricing model, which generated a theoretical price for the instruments that constitute the derivative component based on various inputs, including the factors described under “Summary Risk Factors—The value of the securities prior to maturity will fluctuate based on many unpredictable factors” in this pricing supplement, but not including our or Citigroup Inc.’s creditworthiness. These inputs may be

market-observable or may be based on assumptions made by CGMI in its discretionary judgment.

For a period of approximately four months following issuance of the securities, the price, if any, at which CGMI would be willing to buy the securities from investors, and the value that will be indicated for the securities on any brokerage account statements prepared by CGMI or its affiliates (which value CGMI may also publish through one or more financial information vendors), will reflect a temporary upward adjustment from the price or value that would otherwise be determined. This temporary upward adjustment represents a portion of the hedging profit expected to be realized by CGMI or its affiliates over the term of the securities. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the four-month temporary adjustment period. However, CGMI is not obligated to buy the securities from investors at any time. See “Summary Risk Factors—The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.”

Certain Selling Restrictions

Hong Kong Special Administrative Region

The contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been reviewed by any regulatory authority in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”). Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, they should obtain independent professional advice.

The securities have not been offered or sold and will not be offered or sold in Hong Kong by means of any document, other than

- (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or
- (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) and any rules made under that Ordinance; or

in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (iii) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

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There is no advertisement, invitation or document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits and are not covered by the Hong Kong Deposit Protection Scheme.

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Citigroup Global Markets Holdings Inc.

Singapore

This pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been registered as a prospectus with the Monetary Authority of Singapore, and the securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this pricing supplement or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act. Where the securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the (a) sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the relevant securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to (i) any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Any securities referred to herein may not be registered with any regulator, regulatory body or similar organization or institution in any jurisdiction.

The securities are Specified Investment Products (as defined in the Notice on Recommendations on Investment Products and Notice on the Sale of Investment Product issued by the Monetary Authority of Singapore on 28 July 2011) that is neither listed nor quoted on a securities market or a futures market.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits. These securities are not insured products subject to the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme.

Validity of the Securities

In the opinion of Davis Polk & Wardwell LLP, as special products counsel to Citigroup Global Markets Holdings Inc., when the securities offered by this pricing supplement have been executed and issued by Citigroup Global Markets Holdings Inc. and authenticated by the trustee pursuant to the indenture, and delivered against payment therefor, such securities and the related guarantee of Citigroup Inc. will be valid and binding obligations of Citigroup Global Markets Holdings Inc. and Citigroup Inc., respectively, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York, except that such counsel expresses no opinion as to the application of state securities or Blue Sky laws to the securities.

In giving this opinion, Davis Polk & Wardwell LLP has assumed the legal conclusions expressed in the opinions set forth below of Scott L. Flood, General Counsel and Secretary of Citigroup Global Markets Holdings Inc., and Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc. In addition, this opinion is subject to the assumptions set forth in the letter of Davis Polk & Wardwell LLP dated May 17, 2018, which has been filed as an exhibit to a Current Report on Form 8-K filed by Citigroup Inc. on May 17, 2018, that the indenture has been duly authorized, executed and delivered by, and is a valid, binding and enforceable agreement of, the trustee and that none of the terms of the securities nor the issuance and delivery of the securities and the related guarantee, nor the compliance by Citigroup Global Markets Holdings Inc. and Citigroup Inc. with the terms of the securities and the related guarantee respectively, will result in a violation of any provision of any instrument or agreement then binding upon Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable, or any restriction imposed by any court or governmental body having jurisdiction over Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable.

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Citigroup Global Markets Holdings Inc.

In the opinion of Scott L. Flood, Secretary and General Counsel of Citigroup Global Markets Holdings Inc., (i) the terms of the securities offered by this pricing supplement have been duly established under the indenture and the Board of Directors (or a duly authorized committee thereof) of Citigroup Global Markets Holdings Inc. has duly authorized the issuance and sale of such securities and such authorization has not been modified or rescinded; (ii) Citigroup Global Markets Holdings Inc. is validly existing and in good standing under the laws of the State of New York; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Global Markets Holdings Inc.; and (iv) the execution and delivery of such indenture and of the securities offered by this pricing supplement by Citigroup Global Markets Holdings Inc., and the performance by Citigroup Global Markets Holdings Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York.

Scott L. Flood, or other internal attorneys with whom he has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to his satisfaction, of such corporate records of Citigroup Global Markets Holdings Inc., certificates or documents as he has deemed appropriate as a basis for the opinions expressed above. In such examination, he or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Global Markets Holdings Inc.), the authenticity of all documents submitted to him or such persons as originals, the conformity to original documents of all documents submitted to him or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

In the opinion of Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc., (i) the Board of Directors (or a duly authorized committee thereof) of Citigroup Inc. has duly authorized the guarantee of such securities by Citigroup Inc. and such authorization has not been modified or rescinded; (ii) Citigroup Inc. is validly existing and in good standing under the laws of the State of Delaware; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Inc.; and (iv) the execution and delivery of such indenture, and the performance by Citigroup Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the General Corporation Law of the State of Delaware.

Barbara Politi, or other internal attorneys with whom she has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to her satisfaction, of such corporate records of Citigroup Inc., certificates or documents as she has deemed appropriate as a basis for the opinions expressed above. In such examination, she or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Inc.), the authenticity of all documents submitted to her or such persons as originals, the conformity to original documents of all documents submitted to her or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

Contact

Clients may contact their local brokerage representative. Third-party distributors may contact Citi Structured Investment Sales at (212) 723-7005.

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