SILICON LABORATORIES INC
Form 10-Q
April 30, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended April 4, 2009
	Or
o	**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: 000-29823

SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Delaware   **74-2793174**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 West Cesar Chavez, Austin, Texas	**78701**
(Address of principal executive offices)	(Zip Code)

(512) 416-8500

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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.

x Yes o 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 (§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).

x 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.

Large accelerated filer x 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 Exchange Act).

¨ Yes x No

As of April 22, 2009, 44,686,565 shares of common stock of Silicon Laboratories Inc. were outstanding.

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Cautionary Statement

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-Q (as well as documents incorporated herein by reference) may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include declarations regarding the intent, belief or current expectations of Silicon Laboratories Inc. and its management and may be signified by the words expects, anticipates, intends, believes or similar language. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed under Risk Factors and elsewhere in this report. Silicon Laboratories disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Part I. Financial Information

Item 1. Financial Statements

Silicon Laboratories Inc.

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

	April 4, 2009	January 3, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 181,828	$ 172,272
Short-term investments	93,838	101,267
Accounts receivable, net of allowance for doubtful accounts of $680 at April 4, 2009 and $1,011 at January 3, 2009	44,639	36,144
Inventories	23,525	28,293
Deferred income taxes	6,066	6,439
Prepaid expenses and other current assets	21,102	18,297
Total current assets	370,998	362,712
Long-term investments	50,799	51,821
Property, equipment and software, net	29,065	30,496
Goodwill	105,188	105,515
Other intangible assets, net	47,752	49,728
Other assets, net	18,975	23,973
Total assets	$ 622,777	$ 624,245
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 20,025	$ 22,274
Accrued expenses	25,558	29,119
Deferred income on shipments to distributors	21,154	21,599
Income taxes	78	4
Total current liabilities	66,815	72,996
Long-term obligations and other liabilities	49,068	48,789
Total liabilities	115,883	121,785
Commitments and contingencies		
Stockholders equity:		
Preferred stock $0.0001 par value; 10,000 shares authorized; no shares issued and outstanding		
Common stock $0.0001 par value; 250,000 shares authorized; 44,589 and 44,613 shares issued and outstanding at April 4, 2009 and January 3, 2009, respectively	4	4
Additional paid-in capital	79,461	75,711
Retained earnings	433,464	432,793
Accumulated other comprehensive loss	(6,035)	(6,048)

Total stockholders equity		506,894		502,460
Total liabilities and stockholders equity	$	622,777	$	624,245

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Silicon Laboratories Inc.

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	April 4, 2009	April 5, 2008
Revenues	$ 83,701	$ 98,179
Cost of revenues	33,023	37,832
Gross margin	50,678	60,347
Operating expenses:		
Research and development	26,069	24,673
Selling, general and administrative	23,442	24,609
Operating expenses	49,511	49,282
Operating income	1,167	11,065
Other income (expense):		
Interest income	882	4,798
Interest expense	(52)	(145)
Other income (expense), net	(52)	(142)
Income before income taxes	1,945	15,576
Provision for income taxes	1,274	4,762
Net income	$ 671	$ 10,814
Earnings per share:		
Basic	$ 0.02	$ 0.21
Diluted	$ 0.01	$ 0.21
Weighted-average common shares outstanding:		
Basic	44,633	51,109
Diluted	45,083	52,000

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Silicon Laboratories Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended	
	April 4, 2009	April 5, 2008
Operating Activities		
Net income	$ 671	$ 10,814
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	2,953	2,621
Loss (gain) on disposal of property, equipment and software	8	(15)
Amortization of other intangible assets and other assets	1,976	1,032
Stock compensation expense	10,149	10,221
Income tax benefit (detriment) from employee stock-based awards	(118)	602
Excess income tax benefit from employee stock-based awards	(50)	(411)
Deferred income taxes	3,589	(262)
Changes in operating assets and liabilities:		
Trading securities	2,600	
Accounts receivable	(8,168)	4,856
Inventories	4,781	1,666
Prepaid expenses and other assets	2,237	2,440
Accounts payable	(2,105)	(4,435)
Accrued expenses	(3,753)	(4,989)
Deferred income on shipments to distributors	(445)	(842)
Income taxes	(2,568)	351
Net cash provided by operating activities	11,757	23,649
Investing Activities		
Purchases of available-for-sale investments	(16,458)	(79,237)
Proceeds from sales and maturities of available-for-sale investments	22,095	248,818
Purchases of property, equipment and software	(1,531)	(1,278)
Proceeds from the sale of assets		14,265
Purchases of other assets	(499)	(183)
Net cash provided by investing activities	3,607	182,385
Financing Activities		
Proceeds from issuance of common stock	661	4,534
Excess income tax benefit from employee stock-based awards	50	411
Repurchases of common stock	(5,023)	(143,022)
Repurchases of stock to satisfy employee tax withholding	(1,496)	(1,494)
Net cash used in financing activities	(5,808)	(139,571)
Increase in cash and cash equivalents	9,556	66,463
Cash and cash equivalents at beginning of period	172,272	264,408
Cash and cash equivalents at end of period	$ 181,828	$ 330,871

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the condensed consolidated financial position of Silicon Laboratories Inc. and its subsidiaries (collectively, the Company) at April 4, 2009 and January 3, 2009, the condensed consolidated results of its operations for the three months ended April 4, 2009 and April 5, 2008, and the Condensed Consolidated Statements of Cash Flows for the three months ended April 4, 2009 and April 5, 2008. All intercompany balances and transactions have been eliminated. The condensed consolidated results of operations for the three months ended April 4, 2009 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Condensed Consolidated Financial Statements do not include certain footnotes and financial presentations normally required under U.S. generally accepted accounting principles. Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended January 3, 2009, included in the Company s Form 10-K filed with the Securities and Exchange Commission (SEC) on February 11, 2009.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2009 will have 52 weeks and fiscal 2008 had 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. The extra week in fiscal 2008 was added to the first quarter, making such quarter consist of 14 weeks.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in FASB Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years on a retrospective basis. The Company adopted FSP EITF 03-6-1 at the beginning of fiscal 2009. The adoption did not have a material impact on the Company s financial statements.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Earnings Per Share

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

	Three Months Ended April 4, 2009		Three Months Ended April 5, 2008	
Net income	$	671	$	10,814
Shares used in computing basic earnings per share		44,633		51,109
Effect of dilutive securities:				
Stock options and awards		450		891
Shares used in computing diluted earnings per share		45,083		52,000
Earnings per share:				
Basic	$	0.02	$	0.21
Diluted	$	0.01	$	0.21

Approximately 5.8 million and 4.6 million weighted-average dilutive potential shares of common stock have been excluded from the earnings per share calculation for the three months ended April 4, 2009 and April 5, 2008, respectively, as they were anti-dilutive.

3. Financial Instruments

Investments

The Company s short-term investments consist primarily of corporate bonds, municipal bonds and U.S. government agency notes. The Company s long-term investments consist primarily of auction-rate securities. Early in fiscal 2008, auctions for many of the Company s auction-rate securities failed because sell orders exceeded buy orders. As of April 4, 2009, the Company held $55.4 million par value auction-rate securities, all of which experienced failed auctions. The underlying assets of the securities consisted of student loans and municipal bonds, of which $51.0 million were guaranteed by the U.S. government and the remaining $4.4 million were privately insured. $46.0 million of the auction-rate securities had credit ratings of AAA, $2.4 million had credit ratings of AA and $7.0 million had a credit rating of BBB. These securities had contractual maturity dates ranging from 2025 to 2046 and with current yields of 0.40% to 3.96% per year at April 4, 2009. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. The Company is unable to predict if these funds will become available before their maturity dates. As such, the Company s auction-rate securities have been classified as long-term investments.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In November 2008, the Company entered into an agreement with UBS AG, which provides the Company certain rights to sell to UBS the auction-rate securities which were purchased through them. As of April 4, 2009, the Company held $25.4 million par value auction-rate securities purchased from UBS. The Company has the option to sell these securities to UBS at par value from June 30, 2010 through July 2, 2012. UBS, at its discretion, may purchase or sell these securities on the Company s behalf at any time provided the Company receives par value for the securities sold. The issuers of the auction-rate securities continue to have the right to redeem the securities at their discretion. The agreement allows for the continuation of the accrual and payment of interest due on the securities. The agreement also provides the Company with access to loans of up to 75% of the market value of the unredeemed securities until June 30, 2010. These loans would carry interest rates which would be consistent with the interest income on the related auction-rate securities. As of April 4, 2009, the Company had no loans outstanding under this agreement.

The Company s right to sell the auction-rate securities to UBS commencing June 30, 2010 represents a put option for a payment equal to the par value of the auction-rate securities. As the put option is non-transferable and cannot be attached to the auction-rate securities if they are sold to another entity other than UBS, it represents a freestanding instrument between the Company and UBS. The Company elected the fair value option under FASB SFAS 159 and recorded the put option in long-term investments . The Company has classified the UBS auction-rate securities as trading securities and, accordingly, recognizes changes in fair value in earnings. Adjustments to the fair values of the put option and the trading securities are recorded in other income (expense), net .

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities and it has the ability and intent to hold its non-UBS investments for a period of time sufficient to allow for any anticipated recovery in market value or final settlement at the underlying par value, as the Company believes that the credit ratings and credit support of the security issuers indicate that they have the ability to settle the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of April 4, 2009.

The Company s available-for-sale investments consist of the following (in thousands):

	April 4, 2009			
Debt Security	**Cost**	**Gross Unrealized Losses**	**Gross Unrealized Gains**	**Estimated Fair Value**
Auction-rate securities	$ 30,000	$ (4,437)	$	$ 25,563
Corporate bonds	6,891		6	6,897
Municipal bonds	71,813		532	72,345
U.S. government agency	14,567		29	14,596
	$ 123,271	$ (4,437)	$ 567	$ 119,401

	January 3, 2009
Debt Security	**Cost**

		Gross Unrealized Losses	Gross Unrealized Gains	Estimated Fair Value
Auction-rate securities	$ 30,000	$ (4,260)	$	$ 25,740
Municipal bonds	88,907		503	89,410
U.S. government agency	10,001		56	10,057
	$ 128,908	$ (4,260)	$ 559	$ 125,207

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Derivative Financial Instruments

The Company is exposed to interest rate fluctuations in the normal course of its business, including through its corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. The Company has entered into interest rate swap agreements with notional values of $44.3 million and $50.1 million and, effectively, fixed the rent payment amounts on these leases through March 2011 and March 2013, respectively. The Company s objective is to offset gains and losses resulting from changes in interest rates with losses and gains on the derivative contracts, thereby reducing volatility of earnings. The Company does not use derivative contracts for speculative purposes.

The interest rate swap agreements are designated and qualify as cash flow hedges under FASB SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. The effective portion of the gain or loss on interest rate swaps is recorded in accumulated other comprehensive loss as a separate component of stockholders equity and is subsequently recognized in earnings when the hedged exposure affects earnings. Cash flows from derivatives are classified as cash flows from operating activities in the Consolidated Statement of Cash Flows.

The Company estimates the fair values of derivatives based on quoted prices and market observable data of similar instruments. If the lease agreements or the interest rate swap agreements are terminated prior to maturity, the fair value of the interest rate swaps recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the agreements at the time of termination. During the three months ended April 4, 2009, the Company did not discontinue any cash flow hedges.

For interest rate swaps designated as cash flow hedges, the Company measures effectiveness by comparing the change in fair value of the hedged item with the change in fair value of the interest rate swap. The Company recognizes ineffective portions of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Statement of Income. As of April 4, 2009, no portions of the gains or losses from the hedging instruments were excluded from the assessment of effectiveness. There was no hedge ineffectiveness for any of the periods presented.

The Company s derivative financial instruments consisted of the following (in thousands):

	April 4, 2009	
	Balance Sheet Location	**Fair Value**
Cash flow hedges:		
Interest rate swaps	Long-term obligations and other liabilities	$ 5,413

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The effective portions of losses on derivative financial instruments consisted of the following (in thousands):

	Recognized in Accumulated Other Comprehensive Loss During The Three Months Ended		Location of Loss Reclassified Into Income	Reclassified Into Earnings During The Three Months Ended		Expected To Be Reclassified Into Earnings In The Next 12 Months
	April 4, 2009	**April 5, 2008**		**April 4, 2009**	**April 5, 2008**	
Cash flow hedges:						
Interest rate swaps	$ 363	$	Rent expense	$ 553	$	$ 2,456

The Company s interest rate swap agreements contain provisions that require it to maintain unencumbered cash and highly-rated short-term investments of at least $150 million. If the Company s unencumbered cash and highly-rated short-term investments are less than $150 million, it would be required to post collateral with the counterparty in the amount of the fair value of the interest rate swap agreements in net liability positions. Both of the Company s interest rate swaps were in a net liability position at April 4, 2009. No collateral has been posted with the counterparties as of April 4, 2009.

4. Fair Value of Financial Instruments

The Company s financial instruments are recorded at amounts that reflect the Company s estimate of their fair values. FASB SFAS 157, *Fair Value Measurement,* provides a hierarchal disclosure framework associated with the level of subjectivity used in measuring assets and liabilities at fair value. The three levels defined by the SFAS 157 hierarchy are as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable for the asset or liability and are developed based on the best information available in the circumstances, which might include the Company s own data.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following summarizes the valuation of the Company s financial instruments measured under the SFAS 157 hierarchy (in thousands). The table does not include either cash on hand or assets and liabilities that are measured at historical cost or any basis other than fair value.

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at April 4, 2009 Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents	$ 157,111	$	$	$ 157,111
Short-term investments (1)	93,838			93,838
Long-term investments (2)			50,799	50,799
	$ 250,949	$	$ 50,799	$ 301,748
Liabilities				
Derivative instruments	$	$ 5,413	$	$ 5,413
	$	$ 5,413	$	$ 5,413

(1) Included in the Company s short-term investments are $72.3 million of municipal debt securities, $6.9 million of corporate debt securities and $14.6 million of U.S. government agency debt securities.

(2) Included in the Company s long-term investments are $25.6 million of available-for-sale auction-rate securities, $20.4 million of auction-rate securities classified as trading and $4.8 million for a put option.

The Company s cash equivalents and short-term investments are valued using quoted prices and other relevant information generated by market transactions involving identical assets. The Company s derivative instruments are valued using quoted prices and market observable data of similar instruments. The Company s long-term investments are valued using a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, amount of cash flows, expected holding periods of the securities, a discount to reflect the Company s inability to liquidate the securities and counterparty risk.

The following summarizes the activity in Level 3 financial instruments for the three months ended April 4, 2009 (in thousands):

	Auction Rate Securities	Put Option	Total
Balance at January 3, 2009	$ 46,859	$ 4,962	$ 51,821
Net purchases, sales, issuances and settlements	(499)	(301)	(800)

Unrealized losses		(177)				(177)
Net recognized gains (losses)		(168)		123		(45)
Balance at April 4, 2009	$	46,015	$	4,784	$	50,799
Gain (loss) for period included in earnings attributable to the Level 3 financial instruments still held at April 4, 2009	$	(168)	$	123	$	(45)

The Company s other financial instruments, including cash, accounts receivable and accounts payable, are recorded at amounts that approximate their fair values due to their short maturities.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

5. Balance Sheet Details

Balance sheet details consist of the following (in thousands):

Inventories

	April 4, 2009	January 3, 2009
Work in progress	$ 20,193	$ 23,474
Finished goods	3,332	4,819
	$ 23,525	$ 28,293

6. Stockholders Equity and Stock-Based Compensation

Common Stock

The Company issued 0.3 million shares of common stock during the three months ended April 4, 2009. Approximately 62 thousand shares were withheld by the Company during the three months ended April 4, 2009 to satisfy employee tax obligations for the vesting of certain stock grants made under the Company s 2000 Stock Incentive Plan.

Share Repurchase Program

In October 2008, the Company s Board of Directors authorized a program to repurchase up to $100 million of the Company s common stock over a 12-month period. The program allows for repurchases to be made in the open market or in private transactions, including structured or accelerated transactions, subject to applicable legal requirements and market conditions. During the three months ended April 4, 2009, the Company repurchased 0.2 million shares of its common stock for $5.3 million under its current repurchase program. During the three months ended April 5, 2008, the Company repurchased 4.5 million shares for $137.1 million under its previous share repurchase program that expired in November 2008.

Comprehensive Income

The changes in the components of comprehensive income, net of taxes, were as follows (in thousands):

	Three Months Ended	
	April 4, 2009	April 5, 2008
Net income	$ 671	$ 10,814
Net unrealized losses on available-for-sale securities, net of tax of $59 and $998, respectively	(110)	(1,853)
Net unrealized gains on cash flow hedges, net of tax of $66 and $0, respectively	123	
Comprehensive income	$ 684	$ 8,961

The components of accumulated other comprehensive loss, net of taxes, were as follows (in thousands):

	Unrealized Losses on Cash Flow Hedges	Net Unrealized Losses on Available-For-Sale Securities	Total
Balance at January 3, 2009	$ (3,642)	$ (2,406)	$ (6,048)
Net change associated with current period transactions	123	(110)	13
Balance at April 4, 2009	$ (3,519)	$ (2,516)	$ (6,035)

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Stock-Based Compensation

The Company has two stock-based compensation plans, the 2000 Stock Incentive Plan and the Employee Stock Purchase Plan (the Purchase Plan). The Company accounts for those plans under the recognition and measurement provisions of FASB SFAS No. 123 (revised 2004), *Share-Based Payment* , (SFAS 123R). Stock-based compensation costs are generally based on the fair value on the date of grant for stock options and on the date of enrollment for the Purchase Plan. The fair values of stock awards and restricted stock units (RSUs) generally equal their intrinsic value on the date of grant. The weighted-average fair value of share-based payments during the three months ended April 5, 2008 was estimated using the Black-Scholes option-pricing model with the following assumptions:

2000 Stock Incentive Plan:	
Expected volatility	44.0%
Risk-free interest rate %	2.7%
Expected term (in years)	5.0
Dividend yield	

There were no stock options granted during the three months ended April 4, 2009.

The following are the stock-based compensation costs recognized in the Company s Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended	
	April 4, 2009	April 5, 2008
Cost of revenues	$ 395	$ 370
Research and development	3,878	3,942
Selling, general and administrative	5,876	5,909
	10,149	10,221
Provision for income taxes	1,508	1,247
	$ 8,641	$ 8,974

The Company had approximately $87.0 million of total unrecognized compensation costs related to stock options, stock and RSUs at April 4, 2009 that are expected to be recognized over a weighted-average period of 2.1 years.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. Commitments and Contingencies

Securities Litigation

On December 6, 2001, a class action complaint for violations of U.S. federal securities laws was filed in the United States District Court for the Southern District of New York against the Company, four officers individually and the three investment banking firms who served as representatives of the underwriters in connection with the Company s initial public offering of common stock. The Consolidated Amended Complaint alleges that the registration statement and prospectus for the Company s initial public offering did not disclose that (1) the underwriters solicited and received additional, excessive and undisclosed commissions from certain investors, and (2) the underwriters had agreed to allocate shares of the offering in exchange for a commitment from the customers to purchase additional shares in the aftermarket at pre-determined higher prices. The Complaint alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The action seeks damages in an unspecified amount and is being coordinated with approximately 300 other nearly identical actions filed against other companies. A court order dated October 9, 2002 dismissed without prejudice the four officers of the Company who had been named individually. Plaintiffs selected six focus cases, which do not include the Company, which are intended to serve as test cases. The Court indicated that its decisions in the six focus cases are intended to provide strong guidance for the parties in the remaining cases.

On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. On September 27, 2007, the plaintiffs moved to certify a class in these six cases. On November 14, 2007, the issuers and the underwriters named as defendants in the six focus cases filed motions to dismiss the amended complaints. On March 26, 2008, the District Court dismissed the Securities Act claims of those members of the putative classes in the focus cases who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. With respect to all other claims, the motions to dismiss were denied. On October 10, 2008, at the request of plaintiffs, plaintiffs motion for class certification was withdrawn, without prejudice. On April 3, 2009, the plaintiffs submitted to the Court a motion for preliminary approval of a settlement of the approximately 300 coordinated cases, which includes the Company, the underwriter defendants in its class action lawsuit, and the plaintiff class in its class action lawsuit. The insurers for the issuer defendants in the coordinated cases will make the settlement payment on behalf of the issuers, including the Company. The settlement is subject to termination by the parties under certain circumstances, and is subject to Court approval. There is no assurance that the settlement will be concluded or that the Court will approve the settlement.

As the litigation process is inherently uncertain, the Company is unable to predict the outcome of the above described matter. While the Company does maintain liability insurance, it could incur losses that are not covered by its liability insurance or that exceed the limits of its liability insurance. Such losses could have a material impact on the Company s business and its results of operations or financial position.

Other

The Company is involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, the Company does not expect them to have a material adverse effect on its consolidated financial position or results of operations.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Operating Leases

In March 2006, the Company entered into an operating lease agreement and a related participation agreement for a facility at 400 W. Cesar Chavez (400 WCC) in Austin, Texas for its corporate headquarters. In March 2008, the Company entered into an operating lease agreement and a related participation agreement for a facility at 200 W. Cesar Chavez (200 WCC) in Austin, Texas for the expansion of its corporate headquarters. During the terms of the leases, the Company has on-going options to purchase the buildings for purchase prices of approximately $44.3 million for 400 WCC and $50.1 million for 200 WCC. Alternatively, the Company can cause each such property to be sold to third parties provided it is not in default under that property s lease. The Company is contingently liable on a first dollar loss basis for up to $35.3 million to the extent that the 400 WCC sale proceeds are less than the $44.3 million purchase option and up to $40.0 million to the extent that the 200 WCC sale proceeds are less than the $50.1 million purchase option.

Discontinued Operations Indemnification

In March 2007, the Company sold its Aero® transceiver, AeroFONE single-chip phone and power amplifier product lines (the Aero product lines) to NXP B.V. and NXP Semiconductors France SAS (collectively NXP). In connection with the sale of the Aero product lines, the Company agreed to indemnify NXP with respect to liabilities for certain tax matters. There is no contractual limit on exposure with respect to such matters. As of April 4, 2009, the Company had no material liabilities recorded with respect to this indemnification obligation.

8. Income Taxes

Income tax expense was $1.3 million and $4.8 million for the three months ended April 4, 2009 and April 5, 2008, respectively, resulting in effective tax rates of 65.5% and 30.6%, respectively. The increase in the effective rate for the current period was primarily attributable to an increase in the liability for unrecognized tax benefits and associated interest. The increase was partially offset by an increase in the deductibility of stock compensation expense and an increase in the federal research and development credit.

At April 4, 2009, the Company had gross unrecognized tax benefits of $33.0 million which would affect the effective tax rate if recognized. During the three months ended April 4, 2009, the Company had gross increases of $0.6 million to its current year unrecognized tax benefits, primarily due to uncertainty related to intercompany transfer pricing. During the three months ended April 5, 2008, the Company had gross increases of $1.1 million to its unrecognized tax benefits, primarily due to uncertainty related to intercompany transfer pricing.

The Company believes it is reasonably possible that the unrecognized tax benefits will decrease in the amount of $1.2 million in the next twelve months due to the closing of an open tax year. The nature of the uncertainty relates primarily to deductions taken on a prior year tax return.

Additionally, the Company believes it is reasonably possible that the gross unrecognized tax benefits will change in the next twelve months due to the Company s participation in the Advance Pricing Agreement program with the U.S. Internal Revenue Service. The Company is unable to estimate the range of the possible change to the unrecognized tax benefits at this time.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognized $0.2 million of interest, net of tax, in the provision for income taxes for each of the three months ended April 4, 2009 and April 5, 2008. As of April 4, 2009, the Company had accrued $2.0 million for the payment of interest related to unrecognized tax positions.

The tax years 2004 through 2008 remain open to examination by the major taxing jurisdictions to which the Company is subject. The Company is not currently under audit in any major taxing jurisdiction.

9. Headquarter Relocation Costs

In fiscal 2006 and 2007, the Company relocated its Austin, Texas employees to a new corporate headquarters. The following table summarizes the accrued relocation costs activity for the three months ended April 4, 2009 (in thousands):

Balance at January 3, 2009	Deductions	Balance at April 4, 2009
$ 986	$ 282	$ 704

Deductions represent lease payments.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements. Please see the Cautionary Statement above and Risk Factors below for discussions of the uncertainties, risks and assumptions associated with these statements. Our fiscal year-end financial reporting periods are a 52- or 53- week year ending on the Saturday closest to December 31st. Fiscal 2009 will have 52 weeks and fiscal 2008 had 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. The extra week in fiscal 2008 was added to the first quarter, making such quarter consist of 14 weeks. Our first quarter of fiscal 2009 ended April 4, 2009. Our first quarter of fiscal 2008 ended April 5, 2008.

Overview

We design and develop proprietary, analog-intensive, mixed-signal integrated circuits (ICs) for a broad range of applications. Mixed-signal ICs are electronic components that convert real-world analog signals, such as sound and radio waves, into digital signals that electronic products can process. Therefore, mixed-signal ICs are critical components in a broad range of applications in a variety of markets, including communications, consumer, industrial, automotive, medical and power management. Our major customers include 2Wire, Huawei, LG Electronics, Motorola, Panasonic, Philips, Samsung, Sony Ericsson, Thomson and Varian Medical Systems.

As a fabless semiconductor company, we rely on third-party semiconductor fabricators in Asia, and to a lesser extent the United States, to manufacture the silicon wafers that reflect our IC designs. Each wafer contains numerous die, which are cut from the wafer to create a chip for an IC. We rely on third-parties in Asia to assemble, package, and, in most cases, test these devices and ship these units to our customers. Testing performed by such third parties facilitates faster delivery of products to our customers (particularly those located in Asia), shorter production cycle times, lower inventory requirements, lower costs and increased flexibility of test capacity.

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Our expertise in analog-intensive, high-performance, mixed-signal ICs enables us to develop highly differentiated solutions that address multiple markets. We group our products into the following categories:

- RF products, which include our broadcast radio receivers and transmitters, short-range wireless transceivers, video demodulators, satellite set-top box receivers and satellite radio tuners;

- Access products, which include our ISOmodem® embedded modems and Voice over IP (VoIP) products, such as our ProSLIC® subscriber line interface circuits and voice direct access arrangement (DAA);

- Broad-based products, which include 8-bit microcontroller products, timing products (including clocks, precision clock & data recovery ICs and oscillators) and power products (including our isolators, current sensors, AC-DC converters and Power over Ethernet devices); and

- Mature products, which include our silicon DAA for PC modems, DSL analog front end ICs, optical physical layer transceivers and RF Synthesizers.

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce next generation ICs with added functionality and further integration. In the first three months of 2009, we introduced a family of high pin-count capacitive touch-sense microcontrollers for cost-sensitive embedded systems and the EZRadioPRO embedded wireless radio family. We plan to continue to introduce products that increase the content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expanding our total available market opportunity.

During the three months ended April 4, 2009, one customer, Samsung, represented more than 10% of our revenues. No other single end customer accounted for more than 10% of our revenues during the three months ended April 4, 2009. In addition to direct sales to customers, some of our end customers purchase products indirectly from us through distributors and contract manufacturers. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer. Two of our distributors, Edom Technology and Avnet, represented 20% and 12% of our revenues during the three months ended April 4, 2009, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues during the three months ended April 4, 2009.

The percentage of our revenues derived from customers located outside of the United States was 87% during the three months ended April 4, 2009, which reflects market penetration for our products, as many of our customers manufacture and design their products in Asia. All of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

The sales cycle for our ICs can be as long as 12 months or more. An additional three to six months or more are usually required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we typically experience a significant delay between incurring research and development and selling, general and administrative expenses, and the corresponding sales. Consequently, if sales in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters would be adversely affected. Moreover, the amount of time between initial research and development and commercialization of a product, if ever, can be substantially longer than the sales cycle for the product. Accordingly, if we incur substantial research and development costs without developing a commercially successful product, our operating results, as well as our growth prospects, could be adversely affected.

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Because many of our ICs are designed for use in consumer products such as personal computers, personal video recorders, set-top boxes, portable navigation devices and mobile handsets, we expect that the demand for our products will be typically subject to some degree of seasonal demand. However, rapid changes in our markets and across our product areas make it difficult for us to accurately estimate the impact of seasonal factors on our business.

Results of Operations

The following describes the line items set forth in our Condensed Consolidated Statements of Income:

Revenues. Revenues are generated almost exclusively by sales of our ICs. We recognize revenue on sales when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable, and 4) collectibility is reasonably assured. Generally, we recognize revenue from product sales to direct customers and contract manufacturers upon shipment. Certain of our sales are made to distributors under agreements allowing certain rights of return and price protection on products unsold by distributors. Accordingly, we defer the revenue and cost of revenue on such sales until the distributors sell the product to the end