SILICON LABORATORIES INC
Form 10-Q
April 27, 2016
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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 2, 2016

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: 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)

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 ¨ 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 19, 2016, 41,751,123 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 believe, estimate, expect, intend, anticipate, plan, project, will 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 2, 2016	January 2, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 126,690	$ 114,085
Short-term investments	126,824	128,901
Accounts receivable, net of allowances for doubtful accounts of $657 at April 2, 2016 and $671 at January 2, 2016	74,591	73,601
Inventories	48,923	53,895
Prepaid expenses and other current assets	44,222	52,658
Total current assets	421,250	423,140
Long-term investments	6,845	7,126
Property and equipment, net	130,099	131,132
Goodwill	272,722	272,722
Other intangible assets, net	113,800	121,354
Other assets, net	53,566	55,989
Total assets	$ 998,282	$ 1,011,463
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 42,579	$ 42,127
Current portion of long-term debt	10,000	10,000
Accrued expenses	58,391	52,131
Deferred income on shipments to distributors	41,042	35,448
Income taxes	3,084	2,615
Total current liabilities	155,096	142,321
Long-term debt	65,000	67,500
Other non-current liabilities	28,739	40,528
Total liabilities	248,835	250,349
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; 41,743 and 41,727 shares issued and outstanding at April 2, 2016 and January 2, 2016, respectively	4	4
Additional paid-in capital		13,868
Retained earnings	750,256	747,749
Accumulated other comprehensive loss	(813)	(507)
Total stockholders equity	749,447	761,114

Total liabilities and stockholders equity	$	998,282	$	1,011,463

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 2, 2016	Three Months Ended April 4, 2015
Revenues	$ 162,025	$ 163,705
Cost of revenues	66,494	67,336
Gross margin	95,531	96,369
Operating expenses:		
Research and development	49,046	46,857
Selling, general and administrative	39,637	42,300
Operating expenses	88,683	89,157
Operating income	6,848	7,212
Other income (expense):		
Interest income	271	192
Interest expense	(655)	(745)
Other income (expense), net	(391)	408
Income before income taxes	6,073	7,067
Provision for income taxes	265	689
Net income	$ 5,808	$ 6,378
Earnings per share:		
Basic	$ 0.14	$ 0.15
Diluted	$ 0.14	$ 0.15
Weighted-average common shares outstanding:		
Basic	41,629	42,412
Diluted	42,199	43,149

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

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Silicon Laboratories Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended	
	April 2, 2016	April 4, 2015
Net income	$ 5,808	$ 6,378
Other comprehensive loss, before tax:		
Net changes to available-for-sale securities:		
Unrealized losses arising during the period	(251)	(20)
Reclassification for losses included in net income		10
Net changes to cash flow hedges:		
Unrealized losses arising during the period	(286)	(626)
Reclassification for losses included in net income	66	130
Other comprehensive loss, before tax	(471)	(506)
Benefit from income taxes	(165)	(177)
Other comprehensive loss	(306)	(329)
Comprehensive income	$ 5,502	$ 6,049

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 2, 2016	April 4, 2015
Operating Activities		
Net income	$ 5,808	$ 6,378
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	3,310	2,987
Amortization of other intangible assets and other assets	7,980	6,521
Stock-based compensation expense	10,344	10,519
Income tax benefit (shortfall) from stock-based awards	(1,025)	1,773
Excess income tax benefit from stock-based awards	(6)	(1,785)
Deferred income taxes	(38)	6,844
Changes in operating assets and liabilities:		
Accounts receivable	(990)	6,564
Inventories	4,580	(6,424)
Prepaid expenses and other assets	9,159	8,584
Accounts payable	1,559	447
Accrued expenses	6,260	(5,046)
Deferred income on shipments to distributors	5,558	(1,049)
Income taxes	494	(8,409)
Other non-current liabilities	(10,584)	(3,816)
Net cash provided by operating activities	42,409	24,088
Investing Activities		
Purchases of available-for-sale investments	(44,547)	(13,037)
Proceeds from sales and maturities of available-for-sale investments	46,654	57,739
Purchases of property and equipment	(2,303)	(1,991)
Purchases of other assets	(1,107)	(935)
Acquisition of business, net of cash acquired		(76,899)
Net cash used in investing activities	(1,303)	(35,123)
Financing Activities		
Payment of taxes withheld for vested stock awards, net of proceeds from the issuance of common stock	(7,523)	(2,561)
Excess income tax benefit from stock-based awards	6	1,785
Repurchases of common stock	(18,484)	(10,138)
Payment of acquisition-related contingent consideration		(4,464)
Payments on debt	(2,500)	(2,583)
Net cash used in financing activities	(28,501)	(17,961)
Increase (decrease) in cash and cash equivalents	12,605	(28,996)
Cash and cash equivalents at beginning of period	114,085	141,706
Cash and cash equivalents at end of period	$ 126,690	$ 112,710

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 2, 2016 and January 2, 2016, the condensed consolidated results of its operations for the three months ended April 2, 2016 and April 4, 2015, the Condensed Consolidated Statements of Comprehensive Income for the three months ended April 2, 2016 and April 4, 2015, and the Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2016 and April 4, 2015. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three months ended April 2, 2016 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 (GAAP). 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 2, 2016, included in the Company s Form 10-K filed with the Securities and Exchange Commission (SEC) on February 5, 2016.

The Company prepares financial statements on a 52- or 53-week fiscal year that ends on the Saturday closest to December 31. Fiscal 2016 will have 52 weeks and fiscal 2015 had 52 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to inventories, stock-based compensation, investments in auction-rate securities, acquired intangible assets, goodwill, long-lived assets and income taxes. Actual results could differ from those estimates, and such differences could be material to the financial statements.

Revenue Recognition

Revenues are generated predominately by sales of the Company s products. The Company recognizes revenue 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, revenue from product sales to direct customers and contract manufacturers is recognized upon shipment.

A portion of the Company s sales are made to distributors under agreements allowing certain rights of return and price protection related to the final selling price to the end customers. Accordingly, the Company defers revenue and cost of revenue on such sales until the distributors sell the product to the end customers. The net balance of deferred revenue less deferred cost of revenue associated with inventory shipped to a distributor but not yet sold to an end customer is recorded in the deferred income on shipments to distributors liability on the Consolidated Balance Sheet. Such net deferred income balance reflects the Company s estimate of the impact of rights of return and price protection.

A small portion of the Company s revenues is derived from the sale of patents. The above revenue recognition criteria for patent sales are generally met upon the execution of the patent sale agreement.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The amendments in this update simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted in any interim or annual period. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In February 2016, the FASB issued FASB ASU No. 2016-02, *Leases (Topic 842)*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In January 2016, the FASB issued FASB ASU No. 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Earlier application is permitted for financial statements of fiscal years or interim periods that have not yet been issued. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In July 2015, the FASB issued FASB ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in this update require inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively with earlier application permitted. The Company does not expect that the adoption of this ASU will have a material impact on its financial statements.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In May 2014, the FASB issued FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using one of two retrospective application methods. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued FASB ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The Company is currently evaluating the effect that the adoption of ASU 2014-09, ASU 2015-14 and ASU 2016-08 will have on its financial statements.

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 2, 2016	**April 4, 2015**
Net income	$ 5,808	$ 6,378
Shares used in computing basic earnings per share	41,629	42,412
Effect of dilutive securities:		
Stock options and other stock-based awards	570	737
Shares used in computing diluted earnings per share	42,199	43,149
Earnings per share:		
Basic	$ 0.14	$ 0.15
Diluted	$ 0.14	$ 0.15

For the three months ended April 2, 2016 and April 4, 2015, approximately 0.8 million and 0.1 million shares, respectively, were not included in the diluted earnings per share calculation since the shares were anti-dilutive.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Cash, Cash Equivalents and Investments

The Company s cash equivalents and short-term investments as of April 2, 2016 consisted of municipal bonds, money market funds, variable-rate demand notes, corporate bonds, U.S. government bonds, asset-back securities, commercial paper, certificates of deposit and international government bonds. The Company s long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of the Company s auction-rate securities failed because sell orders exceeded buy orders. As of April 2, 2016, the Company held $8.0 million par value auction-rate securities, all of which have experienced failed auctions. The underlying assets of the securities consisted of student loans and municipal bonds, of which $6.0 million were guaranteed by the U.S. government and the remaining $2.0 million were privately insured. As of April 2, 2016, $6.0 million of the auction-rate securities had credit ratings of AA and $2.0 million had a credit rating of A. These securities have contractual maturity dates ranging from 2033 to 2046 at April 2, 2016. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal amounts 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.

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities. The Company does not intend to sell, and believes it is not more likely than not that it will be required to sell, its auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value. 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 2, 2016.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company s cash, cash equivalents and investments consisted of the following (in thousands):

	April 2, 2016							
		Cost		Gross Unrealized Losses		Gross Unrealized Gains		Fair Value
Cash and cash equivalents:								
Cash on hand	$	76,197	$		$		$	76,197
Available-for-sale securities:								
Money market funds		40,720						40,720
Municipal bonds		5,724						5,724
Certificates of deposit		2,849						2,849
Commercial paper		1,200						1,200
Total available-for-sale securities		50,493						50,493
Total cash and cash equivalents	$	126,690	$		$		$	126,690
Short-term investments:								
Available-for-sale securities:								
Municipal bonds	$	85,668	$	(14)	$	55	$	85,709
Variable-rate demand notes		18,395						18,395
Corporate bonds		8,021		(18)				8,003
U.S. government bonds		6,004				5		6,009
Asset-backed securities		3,995				3		3,998
Commercial paper		2,489						2,489
International government bonds		2,220				1		2,221
Total short-term investments	$	126,792	$	(32)	$	64	$	126,824
Long-term investments:								
Available-for-sale securities:								
Auction rate securities	$	8,000	$	(1,155)	$		$	6,845
Total long-term investments	$	8,000	$	(1,155)	$		$	6,845

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	January 2, 2016			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and cash equivalents:				
Cash on hand	$ 59,071	$	$	$ 59,071
Available-for-sale securities:				
Money market funds	37,721			37,721
Commercial paper	11,272			11,272
Certificates of deposit	2,845			2,845
U.S. government agency	1,599			1,599
Municipal bonds	1,576		1	1,577
Total available-for-sale securities	55,013		1	55,014
Total cash and cash equivalents	$ 114,084	$	$ 1	$ 114,085
Short-term investments:				
Available-for-sale securities:				
Municipal bonds	$ 93,506	$ (32)	$ 42	$ 93,516
Commercial paper	11,176			11,176
Variable-rate demand notes	8,995			8,995
Certificates of deposit	8,000			8,000
U.S. government agency	3,997		1	3,998
International government bonds	2,227	(7)		2,220
Corporate bonds	999	(3)		996
Total short-term investments	$ 128,900	$ (42)	$ 43	$ 128,901
Long-term investments:				
Available-for-sale securities:				
Auction rate securities	$ 8,000	$ (874)	$	$ 7,126
Total long-term investments	$ 8,000	$ (874)	$	$ 7,126

The available-for-sale investments that were in a continuous unrealized loss position, aggregated by length of time that individual securities have been in a continuous loss position, were as follows (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
As of April 2, 2016	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	$ 27,767	$ (11)	$ 2,708	$ (3)	$ 30,475	$ (14)
Corporate bonds	8,003	(18)			8,003	(18)
Auction rate securities			6,845	(1,155)	6,845	(1,155)
	$ 35,770	$ (29)	$ 9,553	$ (1,158)	$ 45,323	$ (1,187)

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

As of January 2, 2016	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Municipal bonds	$ 29,271	$ (30)	$ 1,198	$ (2)	$ 30,469	$ (32)
Auction rate securities			7,126	(874)	7,126	(874)
International government bonds	2,220	(7)			2,220	(7)
Corporate bonds	996	(3)			996	(3)
	$ 32,487	$ (40)	$ 8,324	$ (876)	$ 40,811	$ (916)

The gross unrealized losses as of April 2, 2016 and January 2, 2016 were due primarily to the illiquidity of the Company s auction-rate securities and, to a lesser extent, to changes in market interest rates.

The following summarizes the contractual underlying maturities of the Company s available-for-sale investments at April 2, 2016 (in thousands):

	Cost	Fair Value
Due in one year or less	$ 114,458	$ 114,470
Due after one year through ten years	41,002	41,022
Due after ten years	29,825	28,670
	$ 185,285	$ 184,162

4. Derivative Financial Instruments

The Company uses derivative financial instruments to manage certain exposures to the variability of interest rates and foreign currency exchange rates. The Company s objective is to offset increases and decreases in expenses resulting from these exposures with gains and losses on the derivative contracts, thereby reducing volatility of earnings. The Company does not use derivative contracts for speculative or trading purposes. The Company recognizes derivatives, on a gross basis, in the Consolidated Balance Sheet at fair value. Cash flows from derivatives are classified according to the nature of the cash receipt or payment in the Consolidated Statement of Cash Flows.

Interest Rate Swaps

The Company is exposed to interest rate fluctuations in the normal course of its business, including through its Credit Facilities. The interest payments on the facility are calculated using a variable-rate of interest. The Company has entered into an interest rate swap agreement with an original notional value of $100 million (equal to the full amount borrowed under the Credit Facilities) and, effectively, converted the Eurodollar portion of the variable-rate interest payments to fixed-rate interest payments through July 2017.

The Company s interest rate swap agreement is designated and qualifies as a cash flow hedge. The effective portion of the gain or loss on the interest rate swap is recorded in accumulated other comprehensive loss as a separate component of stockholders equity and is subsequently recognized as interest expense in the Consolidated Statement of Income when the hedged exposure affects earnings.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company estimates the fair values of interest rate swaps based on quoted prices and market observable data of similar instruments. If the Credit Facilities or the interest rate swap agreement is terminated prior to maturity, the fair value of the interest rate swap 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. The Company did not discontinue any cash flow hedges in any of the periods presented.

The Company measures the effectiveness of its cash flow hedge by comparing the change in fair value of the hedged variable interest payments 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 2, 2016, no portion of the gains or losses from the Company s hedging instrument was excluded from the assessment of effectiveness. Hedge ineffectiveness was not material for any of the periods presented.

The Company s derivative financial instrument in cash flow hedging relationships consisted of the following (in thousands):

		Fair Value	
	Balance Sheet Location	**April 2, 2016**	**January 2, 2016**
Interest rate swap	Other assets, net	$	$ 92
	Other non-current liabilities		