

SILICON LABORATORIES INC
Form 10-Q
October 28, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 2, 2010

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)

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Delaware

(State or other jurisdiction of incorporation or organization)

74-2793174

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

400 West Cesar Chavez, Austin, Texas

(Address of principal executive offices)

78701

(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. 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). 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

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 No

As of October 20, 2010, 43,731,063 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.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****Silicon Laboratories Inc.****Condensed Consolidated Balance Sheets****(In thousands, except per share data)****(Unaudited)**

	October 2, 2010	January 2, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,651	\$ 195,737
Short-term investments	238,341	214,486
Accounts receivable, net of allowance for doubtful accounts of \$771 at October 2, 2010 and \$567 at January 2, 2010	63,801	56,128
Inventories	38,140	31,512
Deferred income taxes	10,318	7,620
Prepaid expenses and other current assets	29,960	18,515
Total current assets	488,211	523,998
Long-term investments	19,313	24,676
Property and equipment, net	25,910	27,785
Goodwill	109,222	105,109
Other intangible assets, net	46,156	41,886
Other assets, net	21,328	19,384
Total assets	\$ 710,140	\$ 742,838
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 26,837	\$ 28,759
Accrued expenses	27,751	25,399
Deferred income on shipments to distributors	33,193	28,470
Income taxes	298	6,011
Total current liabilities	88,079	88,639
Long-term obligations and other liabilities	21,661	24,403
Total liabilities	109,740	113,042
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; 43,720 and 45,772 shares issued and outstanding at October 2, 2010 and January 2, 2010, respectively	4	5
Additional paid-in capital	37,175	128,262
Retained earnings	566,244	505,885
Accumulated other comprehensive loss	(3,023)	(4,356)
Total stockholders' equity	600,400	629,796
Total liabilities and stockholders' equity	\$ 710,140	\$ 742,838

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

Table of Contents**Silicon Laboratories Inc.****Condensed Consolidated Statements of Income****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Revenues	\$ 120,154	\$ 125,913	\$ 381,450	\$ 313,830
Cost of revenues	41,484	44,878	128,297	117,336
Gross margin	78,670	81,035	253,153	196,494
Operating expenses:				
Research and development	30,769	25,904	91,200	77,841
Selling, general and administrative	28,556	28,592	86,296	78,221
Operating expenses	59,325	54,496	177,496	156,062
Operating income	19,345	26,539	75,657	40,432
Other income (expense):				
Interest income	540	546	1,839	2,083
Interest expense	(21)	(51)	(66)	(154)
Other income (expense), net	(394)	8	(1,277)	298
Income before income taxes	19,470	27,042	76,153	42,659
Provision for income taxes	1,237	4,603	15,794	9,819
Net income	\$ 18,233	\$ 22,439	\$ 60,359	\$ 32,840
Earnings per share:				
Basic	\$ 0.41	\$ 0.50	\$ 1.34	\$ 0.73
Diluted	\$ 0.40	\$ 0.47	\$ 1.28	\$ 0.71
Weighted-average common shares outstanding:				
Basic	44,341	45,170	45,182	44,814
Diluted	46,009	47,322	47,103	46,127

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

Table of Contents**Silicon Laboratories Inc.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Nine Months Ended	
	October 2, 2010	October 3, 2009
Operating Activities		
Net income	\$ 60,359	\$ 32,840
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	8,736	9,021
Loss on disposal of property and equipment	21	32
Amortization of other intangible assets and other assets	5,461	5,924
Stock compensation expense	31,261	32,176
Income tax benefit from employee stock-based awards	2,855	1,672
Excess income tax benefit from employee stock-based awards	(2,008)	(1,378)
Deferred income taxes	(1,649)	626
Changes in operating assets and liabilities:		
Accounts receivable	(7,429)	(25,016)
Inventories	(6,487)	(5,256)
Prepaid expenses and other assets	(5,548)	3,444
Accounts payable	607	5,656
Accrued expenses	(145)	3,801
Deferred income on shipments to distributors	4,723	10,367
Income taxes	(7,275)	4,246
Net cash provided by operating activities	83,482	78,155
Investing Activities		
Purchases of available-for-sale investments	(293,502)	(182,039)
Proceeds from sales and maturities of marketable securities	277,541	82,912
Purchases of property and equipment	(6,792)	(6,991)
Purchases of other assets	(7,147)	(2,763)
Acquisitions of businesses, net of cash acquired	(18,351)	(2,800)
Net cash used in investing activities	(48,251)	(111,681)
Financing Activities		
Proceeds from issuance of common stock, net of shares withheld for taxes	15,006	21,273
Excess income tax benefit from employee stock-based awards	2,008	1,378
Repurchases of common stock	(140,331)	(12,325)
Net cash provided by (used in) financing activities	(123,317)	10,326
Decrease in cash and cash equivalents	(88,086)	(23,200)
Cash and cash equivalents at beginning of period	195,737	172,272
Cash and cash equivalents at end of period	\$ 107,651	\$ 149,072

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 October 2, 2010 and January 2, 2010, the condensed consolidated results of its operations for the three and nine months ended October 2, 2010 and October 3, 2009, and the Condensed Consolidated Statements of Cash Flows for the nine months ended October 2, 2010 and October 3, 2009. All intercompany balances and transactions have been eliminated. The condensed consolidated results of operations for the three and nine months ended October 2, 2010 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 2, 2010, included in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC) on February 10, 2010.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2010 will have 52 weeks and fiscal 2009 had 52 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks.

Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to current year presentation.

Revenue Recognition

Revenues are generated almost exclusively by sales of the Company's integrated circuits (ICs). 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

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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.

Table of Contents**Silicon Laboratories Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)***Recent Accounting Pronouncements*

In January 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. The ASU requires new disclosures about significant transfers in and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. The ASU also clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. The Company adopted ASU 2010-06 at the beginning of fiscal 2010, except for the separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements, which is effective for the Company at the beginning of fiscal 2011. The adoption of this ASU did not have a material impact, and the deferred provisions of this ASU are not expected to have a material impact, on the Company's 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		Nine Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Net income	\$ 18,233	\$ 22,439	\$ 60,359	\$ 32,840