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 June 30, 2018

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 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 o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 17, 2018, 43,351,408 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)

	June 30, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 194,864	$ 269,366
Short-term investments	347,416	494,657
Accounts receivable, net	93,830	71,367
Inventories	87,163	73,132
Prepaid expenses and other current assets	52,642	39,120
Total current assets	775,915	947,642
Property and equipment, net	132,021	127,682
Goodwill	396,689	288,227
Other intangible assets, net	192,601	83,144
Other assets, net	95,385	88,387
Total assets	$ 1,592,611	$ 1,535,082
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 40,323	$ 38,851
Deferred revenue and returns liability	24,503	
Deferred income on shipments to distributors		50,115
Other current liabilities	74,254	73,359
Total current liabilities	139,080	162,325
Convertible debt	348,233	341,879
Other non-current liabilities	76,830	77,862
Total liabilities	564,143	582,066
Commitments and contingencies		
Stockholders equity:		
Preferred stock $0.0001 par value; 10,000 shares authorized; no shares issued		
Common stock $0.0001 par value; 250,000 shares authorized; 43,350 and 42,707 shares issued and outstanding at June 30, 2018 and December 30, 2017, respectively	4	4
Additional paid-in capital	111,984	102,862
Retained earnings	918,440	851,307
Accumulated other comprehensive loss	(1,960)	(1,157)
Total stockholders equity	1,028,468	953,016
Total liabilities and stockholders equity	$ 1,592,611	$ 1,535,082

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		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	$ 217,106	$ 190,098	$ 422,490	$ 369,126
Cost of revenues	85,814	76,906	166,961	150,773
Gross margin	131,292	113,192	255,529	218,353
Operating expenses:				
Research and development	59,495	52,432	114,323	104,756
Selling, general and administrative	53,796	39,826	99,490	79,981
Operating expenses	113,291	92,258	213,813	184,737
Operating income	18,001	20,934	41,716	33,616
Other income (expense):				
Interest income and other, net	1,609	1,595	4,811	2,171
Interest expense	(4,888)	(4,699)	(9,771)	(4,501)
Income before income taxes	14,722	17,830	36,756	31,286
Provision (benefit) for income taxes	442	1,261	(3,929)	(709)
Net income	$ 14,280	$ 16,569	$ 40,685	$ 31,995
Earnings per share:				
Basic	$ 0.33	$ 0.39	$ 0.94	$ 0.76
Diluted	$ 0.32	$ 0.38	$ 0.92	$ 0.74
Weighted-average common shares outstanding:				
Basic	43,312	42,478	43,138	42,287
Diluted	44,294	43,178	44,106	43,104

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		Six Months Ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Net income	$ 14,280	$ 16,569	$ 40,685	$ 31,995
Other comprehensive income (loss), before tax				
Net changes to available-for-sale securities				
Unrealized gains (losses) arising during the period	396	163	(363)	408
Reclassification for losses included in net income			49	
Net changes to cash flow hedges				
Unrealized losses arising during the period	(397)		(420)	
Reclassification for (gains) losses included in net income	33		33	(1,808)
Other comprehensive income (loss), before tax	32	163	(701)	(1,400)
Provision (benefit) for income taxes	7	57	(148)	(490)
Other comprehensive income (loss)	25	106	(553)	(910)
Comprehensive income	$ 14,305	$ 16,675	$ 40,132	$ 31,085

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)

	Six Months Ended	
	June 30, 2018	July 1, 2017
Operating Activities		
Net income	$ 40,685	$ 31,995
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	7,643	7,308
Amortization of other intangible assets and other assets	18,366	13,571
Amortization of debt discount and debt issuance costs	6,354	3,907
Stock-based compensation expense	24,311	21,652
Deferred income taxes	(5,830)	(6,242)
Changes in operating assets and liabilities:		
Accounts receivable	(16,705)	(887)
Inventories	(565)	(7,737)
Prepaid expenses and other assets	(1,759)	12,539
Accounts payable	2,980	2,363
Other current liabilities and income taxes	(17,249)	14
Deferred income, deferred revenue and returns liability	(4,193)	3,251
Other non-current liabilities	(3,260)	(1,169)
Net cash provided by operating activities	50,778	80,565
Investing Activities		
Purchases of available-for-sale investments	(148,437)	(389,234)
Sales and maturities of available-for-sale investments	295,405	92,307
Purchases of property and equipment	(11,406)	(8,390)
Purchases of other assets	(5,893)	(1,784)
Acquisition of business, net of cash acquired	(239,729)	(13,658)
Net cash used in investing activities	(110,060)	(320,759)
Financing Activities		
Proceeds from issuance of long-term debt, net		389,468
Payments on debt		(72,500)
Repurchases of common stock	(3,397)	
Payment of taxes withheld for vested stock awards	(18,408)	(14,101)
Proceeds from the issuance of common stock	6,585	6,836
Net cash provided by (used in) financing activities	(15,220)	309,703
Increase (decrease) in cash and cash equivalents	(74,502)	69,509
Cash and cash equivalents at beginning of period	269,366	141,106
Cash and cash equivalents at end of period	$ 194,864	$ 210,615

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 June 30, 2018 and December 30, 2017, the condensed consolidated results of its operations for the three and six months ended June 30, 2018 and July 1, 2017, the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and July 1, 2017, and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and July 1, 2017. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three and six months ended June 30, 2018 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 December 30, 2017, included in the Company s Form 10-K filed with the Securities and Exchange Commission (SEC) on January 31, 2018.

The Company prepares financial statements on a 52- or 53-week fiscal year that ends on the Saturday closest to December 31. Fiscal 2018 will have 52 weeks and fiscal 2017 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, goodwill, acquired intangible assets, investments in auction-rate securities, other long-lived assets, revenue recognition, stock-based compensation and income taxes. Actual results could differ from those estimates, and such differences could be material to the financial statements.

Reclassifications

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Adoption of New Revenue Accounting Standard

The Company adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, on December 31, 2017, the first day of its fiscal year ending December 29, 2018. The Company elected the modified retrospective method of adoption which only applies to those contracts which were not completed as of December 31, 2017. Prior periods have not been adjusted. In connection with its adoption of ASC 606, the Company recorded a cumulative-effect adjustment to retained earnings of $26.2 million on December 31, 2017. The following reflects the material changes recorded in connection with the cumulative-effect adjustment (in thousands):

Financial Statement Line Item		**Increase (Decrease)**
Accounts receivable, net	$	230
Prepaid expenses and other current assets	$	7,579
Other assets, net	$	(2,282)
Deferred revenue and returns liability	$	27,806
Deferred income on shipments to distributors	$	(50,115)
Other current liabilities	$	1,641
Retained earnings	$	26,195

The following presents the amounts by which financial statement line items were affected in the current period due to the adoption of ASC 606 (in thousands):

Financial Statement Line Item*	**Increase (Decrease)**			
Condensed Consolidated Statements of Income		**Three Months Ended June 30, 2018**		**Six Months Ended June 30, 2018**
Revenues	$	7,464	$	8,162
Cost of revenues	$	2,233	$	1,983
Net income	$	4,507	$	4,897
Earnings per share:				
Basic	$	0.10	$	0.11
Diluted	$	0.10	$	0.11

Condensed Consolidated Balance Sheet**		**June 30, 2018**
Prepaid expenses and other current assets	$	2,959
Goodwill	$	(2,842)
Other assets, net	$	(3,559)
Deferred revenue and returns liability	$	24,503
Deferred income on shipments to distributors	$	(64,936)
Other current liabilities	$	5,485

Retained earnings	$	31,092

* Excludes line items that were not materially affected by the Company s adoption of ASC 606. The adoption had no impact to cash provided by or used in net operating, investing or financing activities in the Condensed Consolidated Statements of Cash Flows.

** Balance sheet line item amounts include the cumulative-effect adjustment recorded on December 31, 2017.

The primary impact of the Company s adoption of ASC 606 resulted from the acceleration of the timing of revenue recognition on sales to distributors. The Company previously deferred revenue and cost of revenue on such sales until the distributors sold the product to the end customers. The Company now recognizes revenue at the time of sale to the distributor provided all other revenue recognition criteria have been met. The Company records a right of return asset and a returns liability in place of the deferred income on shipments to distributors previously recorded under ASC 605.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Performance Obligations

Substantially all of the Company s contracts with customers contain a single performance obligation, the sale of mixed-signal integrated circuit (IC) products. Such sales represent a single performance obligation because the sale is one type of good (e.g. an IC) or includes multiple goods that are neither capable of being distinct nor separable from the other promises in the contract (e.g. an IC embedded with software). This performance obligation is satisfied when control of the product is transferred to the customer, which typically occurs upon delivery. Unsatisfied performance obligations primarily represent contracts for products with future delivery dates and with an original expected duration of one year or less. As allowed under ASC 606, the Company has opted to not disclose the amount of unsatisfied performance obligations as these contracts have original expected durations of less than one year.

The Company s products carry a one-year replacement warranty. The replacement warranty promises customers that delivered products are as specified in the contract (an assurance-type warranty). Therefore, the Company accounts for such warranties under ASC 460, *Guarantees*, and not as a separate performance obligation.

Transaction Price

The transaction price reflects the Company s expectations about the consideration it will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to direct customers and sales to distributors in which both the sale to the distributor and the sale to the end customer occur within the same reporting period. Variable consideration includes sales in which the amount of consideration that the Company will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to distributors under agreements allowing certain rights of return, referred to as stock rotation, and credits issued to the distributor due to price protection. Stock rotation allows distributors limited levels of returns and is based on the distributor s prior purchases. Price protection represents price discounts granted to certain distributors and is based on negotiations on sales to end customers.

The Company estimates variable consideration at the most likely amount to which it expects to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The estimate is based on information available to the Company, including recent sales activity and pricing data. The Company applies a constraint to its variable consideration estimate which considers both the likelihood of a return and the amount of a potential price concession.

Variable consideration that does not meet revenue recognition criteria is deferred. The Company records a right of return asset in prepaid expenses and other current assets for the costs of distributor inventory not meeting revenue recognition criteria. A corresponding deferred revenue and returns liability amount is recorded for unrecognized revenue associated with such costs.

Contract Balances

Accounts receivable represents the Company s unconditional right to receive consideration from its customer. Payments are typically due within 30 days of invoicing and do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the Condensed Consolidated Balance Sheet in any of the periods presented.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company early adopted this ASU on December 31, 2017. The adoption did not have a material impact on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12*, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The objectives of this ASU are to improve the financial reporting of hedging relationships to better portray the economic results of an entity s risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company early adopted this ASU on December 31, 2017. The adoption did not have a material impact on its financial statements.

In January 2017, the FASB issued ASU No. 2017-04*, Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This ASU eliminates Step 2 from the goodwill impairment test. Instead, an entity should recognize an impairment charge for the amount by which the carrying value exceeds the reporting unit s fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the effect of the adoption of this ASU, but anticipates that the adoption will not have a material impact on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This ASU requires instruments measured at amortized cost to be presented at the net amount expected to be collected. Entities are also required to record allowances for available-for-sale debt securities rather than reduce the carrying amount. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company expects that the adoption will not have a material impact on its financial statements.

In February 2016, the FASB issued 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. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the effect that the adoption of this ASU will have on its financial statements. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and operating lease liabilities upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that it reports relative to such amounts prior to adoption.

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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		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	$ 14,280	$ 16,569	$ 40,685	$ 31,995
Shares used in computing basic earnings per share	43,312	42,478	43,138	42,287
Effect of dilutive securities:				
Stock-based awards	982	700	968	817
Shares used in computing diluted earnings per share	44,294	43,178	44,106	43,104
Earnings per share:				
Basic	$ 0.33	$ 0.39	$ 0.94	$ 0.76
Diluted	$ 0.32	$ 0.38	$ 0.92	$ 0.74

The Company intends to settle the principal amount of its convertible senior notes in cash and any excess value in shares in the event of a conversion. Accordingly, shares issuable upon conversion of the principal amount have been excluded from the calculation of diluted earnings per share. If the market value of the notes under certain prescribed conditions exceeds the conversion amount, the excess is included in the denominator for the computation of diluted earnings per share using the treasury stock method. As of June 30, 2018, approximately 0.1 million shares were included in the denominator for the calculation of diluted earnings per share. See Note 7, *Debt*, to the Condensed Consolidated Financial Statements for additional information.

3. Fair Value of Financial Instruments

The fair values of the Company s financial instruments are recorded using a hierarchical disclosure framework based upon the level of subjectivity of the inputs used in measuring assets and liabilities. The three levels are described below:

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 (in thousands). The tables do not include either cash on hand or assets and liabilities that are measured at historical cost or any basis other than fair value.

	Fair Value Measurements at June 30, 2018 Using			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Cash equivalents:				
Money market funds	$ 82,111	$	$	$ 82,111
Corporate debt securities		23,906		23,906
Government debt securities		8,359		8,359
Total cash equivalents	$ 82,111	$ 32,265	$	$ 114,376
Short-term investments:				
Government debt securities	$ 71,459	$ 124,322	$	$ 195,781
Corporate debt securities		151,635		151,635
Total short-term investments	$ 71,459	$ 275,957	$	$ 347,416
Other assets, net:				
Auction rate securities	$	$	$ 5,642	$ 5,642
Total	$	$	$ 5,642	$ 5,642
Total	$ 153,570	$ 308,222	$ 5,642	$ 467,434

	Fair Value Measurements at December 30, 2017 Using			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Cash equivalents:				
Money market funds	$ 106,047	$	$	$ 106,047
Corporate debt securities		11,231		11,231
Government debt securities	53,615	1,453		55,068
Total cash equivalents	$ 159,662	$ 12,684	$	$ 172,346
Short-term investments:				
Government debt securities	$ 94,575	$ 228,247	$	$ 322,822
Corporate debt securities		171,835		171,835
Total short-term investments	$ 94,575	$ 400,082	$	$ 494,657

Other assets, net:				
Auction rate securities	$	$	$ 5,681	$ 5,681
Total	$	$	$ 5,681	$ 5,681
Total	$ 254,237	$ 412,766	$ 5,681	$ 672,684

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Valuation methodology

The Company s cash equivalents and short-term investments that are classified as Level 2 are valued using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments in active markets; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Investments classified as Level 3 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 and a discount to reflect the Company s inability to liquidate the securities. The Company s derivative instruments are valued using discounted cash flow models. The assumptions used in preparing the valuation models include foreign exchange rates, forward and spot prices for currencies, and market observable data of similar instruments.

Available-for-sale investments

The Company s investments are reported at fair value, with unrealized gains and losses, net of tax, recorded as a component of accumulated other comprehensive loss in the Consolidated Balance Sheet. The following summarizes the contractual underlying maturities of the Company s available-for-sale investments at June 30, 2018 (in thousands):

	Cost	Fair Value
Due in one year or less	$ 313,832	$ 313,333
Due after one year through ten years	131,655	130,420
Due after ten years	24,042	23,681
	$ 469,529	$ 467,434

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 June 30, 2018	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Government debt securities	$ 153,566	$ (893)	$ 3,269	$ (6)	$ 156,835	$ (899)
Corporate debt securities	126,879	(790)	11,152	(70)	138,031	(860)
Auction rate securities			5,642	(358)	5,642	(358)
	$ 280,445	$ (1,683)	$ 20,063	$ (434)	$ 300,508	$ (2,117)

As of December 30, 2017	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
Government debt securities	$ 244,880	$ (931)	$ 3,027	$ (15)	$ 247,907	$ (946)
Corporate debt securities	151,149	(447)	11,578	(73)	162,727	(520)
Auction rate securities			5,681	(319)	5,681	(319)
	$ 396,029	$ (1,378)	$ 20,286	$ (407)	$ 416,315	$ (1,785)

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The gross unrealized losses as of June 30, 2018 and December 30, 2017 were due primarily to changes in market interest rates and the illiquidity of the Company s auction-rate securities. The Company s auction-rate securities have been illiquid since 2008 when auctions for the securities failed because sell orders exceeded buy orders. These securities have a contractual maturity date of 2046. The Company is unable to predict if these funds will become available before their maturity date.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, the Company s intent to sell or the likelihood that it would be required to sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. As of June 30, 2018, the Company has determined that no other-than-temporary impairment losses existed.

At June 30, 2018 and December 30, 2017, there were no material unrealized gains associated with the Company s available-for-sale investments.

Level 3 fair value measurements

The following summarizes quantitative information about Level 3 fair value measurements.

Auction rate securities

Fair Value at June 30, 2018 (000s)		Valuation Technique	Unobservable Input	Weighted Average
$	5,642	Discounted cash flow	Estimated yield	2.56%
			Expected holding period	10 years
			Estimated discount rate	3.82%

The Company has followed an established internal control procedure used in valuing auction rate securities. The procedure involves the analysis of valuation techniques and evaluation of unobservable inputs commonly used by market participants to price similar instruments, and which have been demonstrated to provide reasonable estimates of prices obtained in actual market transactions. Outputs from the valuation process are assessed against various market sources when they are available, including marketplace quotes, recent trades of similar illiquid securities, benchmark indices and independent pricing services. The technique and unobservable input parameters may be recalibrated periodically to achieve an appropriate estimation of the fair value of the securities.

Significant changes in any of the unobservable inputs used in the fair value measurement of auction rate securities in isolation could result in a significantly lower or higher fair value measurement. An increase in expected yield would result in a higher fair value measurement, whereas an increase in expected holding period or estimated discount rate would result in a lower fair value measurement. Generally, a change in the assumptions used for expected holding period is accompanied by a directionally similar change in the assumptions used for estimated yield and discount rate.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following summarizes the activity in Level 3 financial instruments for the three and six months ended June 30, 2018 (in thousands):

Assets

Auction Rate Securities	**Three Months Ended**	**Six Months Ended**
Beginning balance	$ 5,609	$ 5,681
Gain (loss) included in other comprehensive loss	33	(39)
Balance at June 30, 2018	$ 5,642	$ 5,642

Fair values of other financial instruments

The Company s debt is recorded at cost, but is measured at fair value for disclosure purposes. The fair value of the Company s convertible senior notes is determined using observable market prices. The notes are traded in less active markets and are therefore classified as a Level 2 fair value measurement. As of June 30, 2018 and December 30, 2017, the fair value of the convertible senior notes was $488.7 million and $466.2 million, respectively.

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.

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.

Cash Flow Hedges

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts to reduce the earnings impact that exchange rate fluctuations have on operating expenses denominated in currencies other than the U.S. dollar. Changes in the fair value of the contracts are recorded in accumulated other comprehensive loss in the Consolidated Balance Sheet and subsequently reclassified into earnings in the period during which the hedged transaction is recognized. The reclassified amount is reported in the same financial statement line item as the hedged item. If the foreign currency forward contracts are terminated or can no longer qualify as hedging instruments prior to maturity, the fair value of the contracts recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the contracts at the time of termination.

The Company entered into foreign currency forward contracts in March 2018 for a portion of its forecasted operating expenses denominated in the Norwegian Krone. As of June 30, 2018, the contracts had maturities of one to twelve months and an aggregate notional value of $8.4 million. The fair value of the contracts was not material as of June 30, 2018. Contract losses recognized in other comprehensive income during the three and six months ended June 30, 2018 as well as losses expected to be reclassified into earnings in the next 12 months were not material. The amounts reclassified from accumulated other comprehensive loss into earnings were not material for any of the periods presented.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Interest Rate Swaps

The Company entered into an interest rate swap agreement with an original notional value of $72.5 million in connection with its Credit Facility in July 2016. The Company terminated the swap agreement on March 6, 2017, which resulted in the reclassification of $1.8 million of unrealized gains that were previously recorded in accumulated other comprehensive loss into earnings during the three months ended April 1, 2017.

Non-designated Hedges

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts to reduce the earnings impact that exchange rate fluctuations have on non-U.S. dollar balance sheet exposures. The Company recognizes gains and losses on the foreign currency forward contracts in interest income and other, net in the Consolidated Statement of Income in the same period as the remeasurement loss and gain of the related foreign currency denominated asset or liability. The Company does not apply hedge accounting to these foreign currency forward contracts.

As of June 30, 2018 and July 1, 2017, the Company held one foreign currency forward contract denominated in the Norwegian Krone with a notional value of $1.6 million and $3.6 million, respectively. The fair value of the contracts was not material as of June 30, 2018 or July 1, 2017. The contract held as of June 30, 2018 has a maturity date of September 27, 2018 and it was not designated as a hedging instrument.

The before-tax effect of derivative instruments not designated as hedging instruments was as follows (in thousands):

	Three Months Ended		Six Months Ended		
Gain (Loss) Recognized in Income	**June 30, 2018**	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**	**Location**
Foreign currency forward contracts	$ 114	$ (35)	$ (9)	$ (129)	Interest income and other, net

5. Balance Sheet Details

The following shows the details of selected Condensed Consolidated Balance Sheet items (in thousands):

Inventories

	June 30, 2018	December 30, 2017
Work in progress	$ 57,570	$ 46,698
Finished goods	29,593	26,434
	$ 87,163	$ 73,132

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Acquisitions

Z-Wave

On April 18, 2018, the Company completed the acquisition of the Z-Wave business from Sigma Designs, Inc. for $243 million in cash. Z-Wave is an Internet of Things (IoT) technology for smart home solutions.

This strategic acquisition expands the Company s IoT connectivity portfolio in the connected home market, while further scaling the Company s engineering team. These factors contributed to a purchase price that was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill. A portion of the goodwill is deductible for tax purposes. The purchase price was allocated as follows (in thousands):

		Amount	Weighted-Average Amortization Period (Years)
Intangible assets:			
In-process research and development	$	20,900	Not amortized
Developed technology		69,875	7
Customer relationships		25,000	4
Trademarks		9,900	7
		125,675	
Cash and cash equivalents		2,841	
Accounts receivable		5,311	
Inventory		15,581	
Other current assets		329	
Goodwill		108,461	
Other non-current assets		2,587	
Accounts payable		(3,306)	
Other current liabilities		(8,917)	
Other non-current liabilities		(5,993)	
Total purchase price	$	242,569	

In-process research and development (IPR&D) represents acquired smart home technology that had not achieved technological feasibility as of the acquisition date. The fair value of IPR&D was determined using the income approach. The discount rate applied to the projected cash flows was 15.0%, which reflects the risks related to the projects. The allocation of the purchase price is preliminary and subject to change, primarily for the valuation of intangible assets and product warranty accruals and the finalization of income tax matters.

Revenues attributable to the Z-Wave business from the date of acquisition to June 30, 2018 were $7.6 million. The Company recorded approximately $4.9 million of acquisition-related costs in selling, general and administrative expenses during the six months ended June 30, 2018.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, giving effect to the acquisition as if it had been completed on January 1, 2017. The pro forma financial information includes charges for the fair value write-up associated with acquired inventory, adjustments for amortization expense of acquired intangible assets and tax-related expenses.

The pro forma&