SILICON LABORATORIES INC
Form 10-Q
October 31, 2011
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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 October 1, 2011

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)

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 October 19, 2011, 41,850,712 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)

	October 1, 2011	January 1, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 108,183	$ 138,567
Short-term investments	174,915	227,295
Accounts receivable, net of allowance for doubtful accounts of $733 at October 1, 2011 and $772 at January 1, 2011	58,370	45,030
Inventories	38,403	39,450
Deferred income taxes	10,617	9,140
Prepaid expenses and other current assets	36,280	34,447
Total current assets	426,768	493,929
Long-term investments	17,840	17,500
Property and equipment, net	27,373	29,945
Goodwill	115,489	112,296
Other intangible assets, net	63,787	53,242
Other assets, net	26,088	20,746
Total assets	$ 677,345	$ 727,658
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 25,720	$ 24,433
Accrued expenses	31,842	25,604
Deferred income on shipments to distributors	28,372	26,127
Income taxes	809	3,692
Total current liabilities	86,743	79,856
Long-term obligations and other liabilities	19,280	22,372
Total liabilities	106,023	102,228
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; 41,839 and 43,933 shares issued and outstanding at October 1, 2011 and January 1, 2011, respectively	4	4
Additional paid-in capital		49,947
Retained earnings	573,848	579,127
Accumulated other comprehensive loss	(2,530)	(3,648)
Total stockholders equity	571,322	625,430
Total liabilities and stockholders equity	$ 677,345	$ 727,658

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		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenues	$ 119,100	$ 120,154	$ 364,933	$ 381,450
Cost of revenues	46,203	41,484	143,666	128,297
Gross margin	72,897	78,670	221,267	253,153
Operating expenses:				
Research and development	31,715	30,769	101,248	91,200
Selling, general and administrative	27,254	28,556	85,168	86,296
Operating expenses	58,969	59,325	186,416	177,496
Operating income	13,928	19,345	34,851	75,657
Other income (expense):				
Interest income	388	540	1,432	1,839
Interest expense	(4)	(21)	(14)	(66)
Other income (expense), net	(81)	(394)	292	(1,277)
Income before income taxes	14,231	19,470	36,561	76,153
Provision for income taxes	2,976	1,237	13,894	15,794
Net income	$ 11,255	$ 18,233	$ 22,667	$ 60,359
Earnings per share:				
Basic	$ 0.26	$ 0.41	$ 0.52	$ 1.34
Diluted	$ 0.26	$ 0.40	$ 0.50	$ 1.28
Weighted-average common shares outstanding:				
Basic	42,834	44,341	43,902	45,182
Diluted	43,919	46,009	45,305	47,103

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)

	Nine Months Ended	
	October 1, 2011	October 2, 2010
Operating Activities		
Net income	$ 22,667	$ 60,359
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	10,119	8,736
Amortization of other intangible assets and other assets	8,570	5,461
Stock-based compensation expense	27,224	31,261
Income tax benefit from employee stock-based awards	2,301	2,855
Excess income tax benefit from employee stock-based awards	(2,111)	(2,008)
Deferred income taxes	2,011	(1,649)
Changes in operating assets and liabilities:		
Accounts receivable	(11,581)	(7,429)
Inventories	1,670	(6,487)
Prepaid expenses and other assets	227	(5,527)
Accounts payable	871	607
Accrued expenses	819	(145)
Deferred income on shipments to distributors	1,495	4,723
Income taxes	1,287	(7,275)
Net cash provided by operating activities	65,569	83,482
Investing Activities		
Purchases of available-for-sale investments	(113,784)	(293,502)
Proceeds from sales and maturities of marketable securities	166,262	277,541
Purchases of property and equipment	(7,472)	(6,792)
Purchases of other assets	(891)	(7,147)
Acquisitions of businesses, net of cash acquired	(27,262)	(18,351)
Net cash provided by (used in) investing activities	16,853	(48,251)
Financing Activities		
Proceeds from issuance of common stock, net of shares withheld for taxes	2,320	15,006
Excess income tax benefit from employee stock-based awards	2,111	2,008
Repurchases of common stock	(110,063)	(140,331)
Payments on debt	(7,174)	
Net cash used in financing activities	(112,806)	(123,317)
Decrease in cash and cash equivalents	(30,384)	(88,086)
Cash and cash equivalents at beginning of period	138,567	195,737
Cash and cash equivalents at end of period	$ 108,183	$ 107,651

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 1, 2011 and January 1, 2011, the condensed consolidated results of its operations for the three and nine months ended October 1, 2011 and October 2, 2010, and the Condensed Consolidated Statements of Cash Flows for the nine months ended October 1, 2011 and October 2, 2010. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three and nine months ended October 1, 2011 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 1, 2011, included in the Company s Form 10-K filed with the Securities and Exchange Commission (SEC) on February 10, 2011.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2011 will have 52 weeks and fiscal 2010 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

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.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the two-step impairment test. If an entity concludes otherwise, then the two-step impairment test is not required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the Company s financial statements.

In June 2011, the FASB issued FASB ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. This ASU requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively. The adoption of this ASU is not expected to have a material impact on the Company s financial statements.

In May 2011, the FASB issued FASB ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this ASU is 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 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net income	$ 11,255	$ 18,233	$ 22,667	$ 60,359

Shares used in computing basic earnings per share	42,834	44,341	43,902	45,182
Effect of dilutive securities:				
Stock options and awards	1,085	1,668	1,403	1,921
Shares used in computing diluted earnings per share	43,919	46,009	45,305	47,103
Earnings per share:				
Basic	$ 0.26	$ 0.41	$ 0.52	$ 1.34
Diluted	$ 0.26	$ 0.40	$ 0.50	$ 1.28

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Approximately 1.4 million, 0.8 million, 0.5 million and 0.7 million weighted-average dilutive potential shares of common stock have been excluded from the earnings per share calculation for the three months ended October 1, 2011 and October 2, 2010, and for the nine months ended October 1, 2011 and October 2, 2010, respectively, as they were anti-dilutive.

3. Cash, Cash Equivalents and Investments

The Company s cash equivalents and short-term investments as of October 1, 2011 consisted of corporate bonds, money market funds, municipal bonds, variable-rate demand notes, U.S. government agency bonds, U.S. Treasury bills, international government bonds, certificates of deposit, asset-backed securities and commercial paper. The Company s long-term investments consist 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 October 1, 2011, the Company held $19.3 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 $17.3 million were guaranteed by the U.S. government and the remaining $2.0 million were privately insured. As of October 1, 2011, $17.3 million of the auction-rate securities had credit ratings of AAA and $2.0 million had a credit rating of A. These securities have contractual maturity dates ranging from 2029 to 2046 and with current yields of 0.3% to 3.1% per year at October 1, 2011. 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 October 1, 2011.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

	October 1, 2011			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	$ 41,855	$	$	$ 41,855
Available-for-sale securities:				
Money market funds	66,328			66,328
Total cash and cash equivalents	$ 108,183	$	$	$ 108,183
Short-term Investments:				
Available-for-sale securities:				
Corporate bonds	$ 80,102	$ (282)	$ 240	$ 80,060
Municipal bonds	56,308	(5)	99	56,402
Variable-rate demand notes	13,200			13,200
U.S. government agency	10,029	(1)	20	10,048
U.S. Treasury bills	8,600			8,600
International government bonds	2,791		1	2,792
Certificates of deposit	1,570	(1)		1,569
Asset-backed securities	1,245	(1)		1,244
Commercial paper	1,000			1,000
Total short-term investments	$ 174,845	$ (290)	$ 360	$ 174,915
Long-term Investments:				
Available-for-sale securities:				
Auction rate securities	$ 19,275	$ (1,435)	$	$ 17,840
Total long-term investments	$ 19,275	$ (1,435)	$	$ 17,840

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	January 1, 2011			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	$ 40,644			$ 40,644
Available-for-sale securities:				
U.S. Treasury bills	50,096	$	$ 1	50,097
Money market funds	45,167			45,167
Commercial paper	2,659			2,659
Total available-for-sale securities	97,922		1	97,923
Total cash and cash equivalents	$ 138,566	$	$ 1	$ 138,567
Short-term Investments:				
Available-for-sale securities:				
Corporate bonds	$ 88,183	$ (46)	$ 381	$ 88,518
Variable-rate demand notes	39,425			39,425
Municipal bonds	38,408	(18)	24	38,414
U.S. government agency	34,635	(5)	50	34,680
International government bonds	10,792		38	10,830
U.S. Treasury bills	6,998		1	6,999
Certificates of deposit	5,744	(2)		5,742
Commercial paper	2,687			2,687
Total short-term investments	$ 226,872	$ (71)	$ 494	$ 227,295
Long-term Investments:				
Available-for-sale securities:				
Auction rate securities	$ 19,725	$ (2,225)	$	$ 17,500
Total long-term investments	$ 19,725	$ (2,225)	$	$ 17,500

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 October 1, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	$ 34,577	$ (282)	$	$	$ 34,577	$ (282)
Auction rate securities			17,840	(1,435)	17,840	(1,435)
Municipal bonds	6,181	(5)			6,181	(5)
U.S. government agency	5,003	(1)			5,003	(1)
Certificates of deposit	1,569	(1)			1,569	(1)
Asset-backed securities	1,244	(1)			1,244	(1)
	$ 48,574	$ (290)	$ 17,840	$ (1,435)	$ 66,414	$ (1,725)

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Less Than 12 Months		12 Months or Greater		Total	
As of January 1, 2011	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Municipal bonds	$ 22,272	$ (18)	$	$	$ 22,272	$ (18)
Corporate bonds	17,538	(44)	1,298	(2)	18,836	(46)
Auction rate securities			17,500	(2,225)	17,500	(2,225)
U.S. government agency	17,007	(5)			17,007	(5)
Certificates of deposit	1,569	(2)			1,569	(2)
	$ 58,386	$ (69)	$ 18,798	$ (2,227)	$ 77,184	$ (2,296)

The gross unrealized losses as of October 1, 2011 and January 1, 2011 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 October 1, 2011 (in thousands):

	Cost	Fair Value
Due in one year or less	$ 158,008	$ 158,118
Due after one year through ten years	71,265	71,225
Due after ten years	31,175	29,740
	$ 260,448	$ 259,083

4. 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 swap agreement with a notional value of $44.3 million matured in March 2011 and was not renewed. The Company s objective in entering into such swap agreements was to offset increases and decreases in expenses resulting from changes in interest rates with gains and losses 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. 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.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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. The Company did not discontinue any cash flow hedges in any of the periods presented.

The Company measures the effectiveness of its cash flow hedges 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 October 1, 2011, no portion of the gains or losses from the Company s hedging instrument was excluded from the assessment of effectiveness. There was no hedge ineffectiveness for any of the periods presented.

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

	October 1, 2011	
	Balance Sheet Location	**Fair Value**
Interest rate swap:	Long-term obligations and other liabilities	$ 2,526

The before-tax effect of derivative instruments in cash flow hedging relationships was as follows (in thousands):

	Loss Recognized in OCI on Derivatives (Effective Portion) during the: Three Months Ended			Loss Reclassified from Accumulated OCI into Income (Effective Portion) during the: Three Months Ended	
	October 1, 2011	**October 2, 2010**	**Location of Loss Reclassified into Income**	**October 1, 2011**	**October 2, 2010**
Interest rate swaps	$ (66)	$ (835)	Rent expense	$ (481)	$ (791)
	Nine Months Ended			**Nine Months Ended**	
	October 1, 2011	**October 2, 2010**		**October 1, 2011**	**October 2, 2010**
Interest rate swaps	$ (492)	$ (2,734)	Rent expense	$ (1,777)	$ (2,480)

The Company expects to reclassify $1.8 million of its interest rate swap losses included in accumulated other comprehensive loss as of October 1, 2011 into earnings in the next 12 months, which is offset by lower rent payments.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company s interest rate swap agreement contains 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. The Company s interest rate swap was in a net liability position at October 1, 2011. No collateral has been posted with the counterparty as of October 1, 2011.

5. Fair Value of Financial Instruments

The fair values of the Company s financial instruments are recorded using a hierarchal 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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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.

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at October 1, 2011 Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash Equivalents:				
Money market funds	$ 66,328	$	$	$ 66,328
Total cash equivalents	$ 66,328	$	$	$ 66,328
Short-term Investments:				
Corporate bonds	$	$ 80,060	$	$ 80,060
Municipal bonds		56,402		56,402
Variable-rate demand notes		13,200		13,200
U.S. government agency		10,048		10,048
U.S. Treasury bills	8,600			8,600
International government bonds		2,792		2,792
Certificates of deposit		1,569		1,569
Asset-backed securities		1,244		1,244
Commercial paper		1,000		1,000
Total short-term investments	$ 8,600	$ 166,315	$	$ 174,915
Long-term Investments:				
Auction rate securities	$	$	$ 17,840	$ 17,840
Total long-term investments	$	$	$ 17,840	$ 17,840
Total	$ 74,928	$ 166,315	$ 17,840	$ 259,083
Liabilities:				
Derivative instruments	$	$ 2,526	$	$ 2,526
Contingent consideration			1,523	1,523
Total	$	$ 2,526	$ 1,523	$ 4,049

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Description	Fair Value Measurements at January 1, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (1)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash Equivalents:				
U.S. Treasury bills	$ 50,097	$	$	$ 50,097
Money market funds	45,167			45,167
Commercial paper		2,659		2,659
Total cash equivalents	$ 95,264	$ 2,659	$	$ 97,923
Short-term Investments:				
Corporate bonds	$	$ 88,518	$	$ 88,518
Variable-rate demand notes		39,425		39,425
Municipal bonds		38,414		38,414
U.S. government agency		34,680		34,680
International government bonds		10,830		10,830
U.S. Treasury bills	6,999			6,999
Certificates of deposit		5,742		5,742
Commercial paper		2,687		2,687
Total short-term investments	$ 6,999	$ 220,296	$	$ 227,295
Long-term Investments:				
Auction rate securities	$	$	$ 17,500	$ 17,500
Total long-term investments	$	$	$ 17,500	$ 17,500
Total	$ 102,263	$ 222,955	$ 17,500	$ 342,718
Liabilities:				
Derivative instruments	$	$ 3,811	$	$ 3,811
Contingent consideration			1,780	1,780
Total	$	$ 3,811	$ 1,780	$ 5,591

(1) The Company previously classified all of its cash equivalents and short-term investments as using Level 1 inputs. The Company has determined that the pricing methods for certain of these investments use significant other observable inputs. Accordingly, such investments held in prior periods have been reclassified to Level 2 to conform to the current year presentation. The reclassification had no impact on the fair value of investments in any of the periods presented.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company s cash equivalents and short-term investments that are classified as Level 1 are valued using quoted prices and other relevant information generated by market transactions involving identical assets. Investments 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 a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include quoted interest swap rates and market observable data of similar instruments. The Company s contingent consideration is valued using a probability weighted discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for possible outcomes if certain milestone goals are achieved, the probability of achieving each outcome and discount rates.

The following summarizes the activity in Level 3 financial instruments for the three and nine months ended October 1, 2011 (in thousands):

Assets

Auction Rate Securities	Three Months Ended	Nine Months Ended
Beginning balance	$ 17,196	$ 17,500
Settlements	(150)	(450)
Unrealized gains	794	790
Balance at October 1, 2011	$ 17,840	$ 17,840

Liabilities

Contingent Consideration (1)	Three Months Ended	Nine Months Ended
Beginning balance	$ 2,034	$ 1,780
Issuances		1,025
Recognized net gain (2)	(511)	(1,282)
Balance at October 1, 2011	$ 1,523	$ 1,523
	$ 511	$ 1,282

Net gain for period included in earnings attributable to contingent consideration still held at October 1, 2011:

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(1) In connection with the acquisitions of Spectra Linear and ChipSensors, the Company recorded contingent consideration based upon the achievement of certain milestone goals. Changes to the fair value of contingent consideration due to changes in assumptions used in preparing the discounted cash flow model are recorded in selling, general and administrative expenses in the Consolidated Statement of Income. Changes resulting from foreign currency remeasurement adjustments to the contingent consideration liability are recorded in other income (expense), net.

(2) The Company reduced the estimated fair value of contingent consideration based on the expectation that certain milestone goals will no longer be achieved.

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)

6. Balance Sheet Details

Inventories (in thousands):

	October 1, 2011	January 1, 2011
Work in progress	$ 32,409	$ 32,977
Finished goods	5,994	6,473
	$ 38,403	$ 39,450

7. Acquisitions

Spectra Linear

On January 25, 2011, the Company acquired Spectra Linear, Inc., a late-stage private company offering integrated timing solutions. The Company acquired Spectra Linear for approximately $28.6 million, including contingent consideration with an estimated fair value of $1.0 million at the date of acquisition. The contingent consideration could be as much as $10.0 million and is payable on a dollar for dollar basis to the extent that revenue of the acquired products exceed $16.0 million during 2011. In addition, the Company assumed approximately $8.0 million of Spectra Linear net liabilities in connection with the acquisition.

The Company paid an additional approximately $4.5 million of consideration to certain Spectra Linear employees in connection with an agreement between the employees and Spectra Linear. This agreement provided that upon the sale of Spectra Linear, a portion of the proceeds would be paid to such employees as bonuses. The agreement was accounted for as a transaction separate from the business combination based on its economic substance and was recorded as post-combination expenses in the Company s financial statements during the three months ended April 2, 2011.

Approximately $6.0 million of the consideration was deposited in escrow as security for breaches of representations and warranties and certain other expressly enumerated matters.

The Company recorded the purchase of Spectra Linear using the acquisition method of accounting and accordingly, recognized the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The results of Spectra Linear s operations are included in the Company s consolidated results of operations beginning with the date of the acquisition. Pro forma results of operations related to this acquisition have not been presented since Spectra Linear operating results up to the date of acquisition were not material to the Company s consolidated financial statements.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company believes that the acquisition adds a broad family of timing ICs that will enable it to accelerate penetration in high-volume applications, 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. The goodwill was allocated to the Company s operating segment and is not expected to be deductible for tax purposes. The purchase price was allocated as follows (in thousands):

		Amount	Weighted-Average Amortization Period (Years)
Intangible assets:			
Core and developed technology	$	16,560	9.6
Customer relationships		1,400	10.0
		17,960	
Accounts receivable		1,759	
Inventories		1,199	
Other current assets		1,658	
Goodwill		4,097	
Deferred tax assets non-current		12,316	
Other non-current assets		597	
Notes payable current portion		(4,641)	
Current liabilities		(3,112)	
Non-current liabilities		(3,254)	
Total purchase price	$	28,579	

One of the Company s directors, Harvey B. Cash, is a General Partner with InterWest Partners and InterWest Partners was one of the principal stockholders of Spectra Linear. Mr. Cash abstained from the decision-making process with respect to the acquisition.

Silicon Clocks

In April 2010, the Company acquired Silicon Clocks, Inc., a privately held company that designed and developed microelectromechanical system (MEMS) technology to enable the manufacture of silicon resonators and sensors directly on standard complementary metal oxide semiconductor (CMOS) wafers. The Company acquired Silicon Clocks for approximately $21.0 million in cash. Of such consideration, $2.0 million was deposited in escrow as security for breaches of representations and warranties and certain other expressly enumerated matters.

The Company recorded the purchase of Silicon Clocks using the acquisition method of accounting and accordingly, recognized the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The results of Silicon Clocks operations are included in the Company s consolidated results of operations beginning with the date of the acquisition. Revenues and earnings of Silicon Clocks and pro forma financial information have not been presented because the results of Silicon Clocks operations were not material. Acquisition-related costs were

not significant.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company believes that the acquisition will enable the Company to accelerate its entry into the low end timing 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. The goodwill was allocated to the Company s one operating segment and is not 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	$ 9,470	Not amortized
Developed technology	230	3.0
Customer relationships	30	2.0
	9,730	
Cash and cash equivalents	514	
Other current assets	473	
Deferred tax assets non-current	11,521	
Other non-current assets	322	
Goodwill	3,209	
Current liabilities	(1,338)	
Deferred tax liabilities non-current	(3,406)	
Total purchase price	$ 21,025	

In-process research and development (IPR&D) represents acquired technology that had not achieved technological feasibility as of the acquisition closing date and had no alternative future use. These costs were recorded as indefinite-lived intangible assets. The assets are tested for impairment through their completion and then amortized to research and development expense over their useful lives. The fair value of each project was determined using the income approach. The discount rate applicable to the cash flows was 19.0%. This rate reflects the weighted-average cost of capital and the risks inherent in the development process. The IPR&D recorded in connection with the acquisition consisted of the following (in thousands):

Project	Fair Value
Resonator	$ 5,200
Clocks	4,270
	$ 9,470

8. Stockholders Equity

Common Stock

The Company issued 1.1 million shares of common stock during the nine months ended October 1, 2011, net of 0.2 million shares withheld to satisfy employee tax obligations for the vesting of certain stock grants made under the Company s stock incentive plans.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Share Repurchase Programs

In July 2010, the Board of Directors adopted a share repurchase program to repurchase up to $150 million of the Company s common stock through 2011. The program became effective immediately and terminated the remaining share repurchase authorization of the prior program. The prior program, which was announced in October 2009, authorized the repurchase up to $150 million of the Company s common stock through 2010. The program adopted in July 2010 was completed in August 2011. In October 2011, the Board of Directors adopted a new share repurchase program to repurchase up to $50 million of the Company s common stock through April 2012. These programs allowed 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 nine months ended October 1, 2011, the Company repurchased 3.2 million shares of its common stock for $110.0 million. During the nine months ended October 2, 2010, the Company repurchased 3.3 million shares of its common stock for $140.3 million.

Comprehensive Income

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

	Three Months Ended	
	October 1, 2011	October 2, 2010
Net income	$ 11,255	$ 18,233
Net unrealized gains on available-for-sale securities, net of tax of $(104) and $(109), respectively	192	203
Net unrealized gains (losses) on cash flow hedges, net of tax of $(145) and $16, respectively	270	(29)
Comprehensive income	$ 11,717	$ 18,407

	Nine Months Ended	
	October 1, 2011	October 2, 2010
Net income	$ 22,667	$ 60,359
Net unrealized gains on available-for-sale securities, net of tax of $(152) and $(806), respectively	283	1,498
Net unrealized gains (losses) on cash flow hedges, net of tax of $(450) and $89, respectively	835	(165)
Comprehensive income	$ 23,785	$ 61,692

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Accumulated Other Comprehensive Loss

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 1, 2011	$ (2,477)	$ (1,171)	$ (3,648)
Change associated with current period transactions, net of tax	(320)	283	(37)
Amount reclassified into earnings, net of tax	1,155		1,155
Balance at October 1, 2011	$ (1,642)	$ (888)	$ (2,530)

9. Stock-Based Compensation

In fiscal 2009, the stockholders of the Company approved the 2009 Stock Incentive Plan (the 2009 Plan) and the 2009 Employee Stock Purchase Plan (the 2009 Purchase Plan). The 2009 Plan is currently effective, and no further grants will be issued under the Company s 2000 Stock Incentive Plan (the 2000 Plan) as of the effective date of the 2009 Plan. The 2009 Plan has a term of 10 years from the shareholders approval date. The 2009 Purchase Plan became effective upon the termination of the previous Employee Stock Purchase Plan (the Purchase Plan), on April 30, 2010.

Stock-based compensation costs are generally based on the fair values on the date of grant for stock options and on the date of enrollment for the employee stock purchase plans, estimated by using the Black-Scholes option-pricing model. The fair values of stock awards and restricted stock units (RSUs) generally equal their intrinsic value on the date of grant. There were no stock options granted during the nine months ended October 1, 2011 or October 2, 2010. The fair values estimated from the Black-Scholes option-pricing model were calculated using the following assumptions:

	Nine Months Ended	
Employee Stock Purchase Plan	**October 1, 2011**	**October 2, 2010**
Expected volatility	25.0%	33.8%
Risk-free interest rate %	0.3%	0.6%
Expected term (in months)	12	15
Dividend yield		

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

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Cost of revenues	$ 335	$ 368	$ 1,015	$ 1,075
Research and development	3,581	4,371	11,284	12,921
Selling, general and administrative	5,234	5,591	14,925	17,265
	9,150	10,330	27,224	31,261
Income tax benefit	880	1,321	2,695	4,328
	$ 8,270	$ 9,009	$ 24,529	$ 26,933

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company had approximately $48.7 million of total unrecognized compensation costs related to stock options and stock awards at October 1, 2011 that are expected to be recognized over a weighted-average period of 1.6 years. There were no significant stock-based compensation costs capitalized into assets in any of the periods presented.

10. 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. On December 5, 2006, the Second Circuit vacated a decision by the District Court granting class certification in six of the coordinated cases, which are intended to serve as test, or focus cases. The plaintiffs selected these six cases, which do not include the Company. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the District Court to certify more narrow classes than those that were rejected.

The parties in the approximately 300 coordinated cases, including the parties in the case against the Company, reached a settlement. The insurers for the issuer defendants in the coordinated cases will make the settlement payment on behalf of the issuers, including the Company. On October 5, 2009, the Court granted final approval of the settlement. Judgment was entered on January 10, 2010. The settlement approval was appealed to the United States Court of Appeals for the Second Circuit. One appeal was dismissed and the second appeal was remanded to the District Court to determine if the appellant is a class member with standing to appeal. The District Court ruled that the appellant is not a class member with standing to appeal. The appellant has filed with the United States Court of Appeals for the Second Circuit a notice of appeal of the District Court opinion that he is not a class member.

As the litigation process is inherently uncertain, the Company is unable to predict the outcome of the above described matter if the settlement does not survive appeal. 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 fiscal 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 October 1, 2011, the Company had no material liabilities recorded with respect to this indemnification obligation.

11. Income Taxes

Provision for income taxes includes both domestic and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses, research and development tax credits and other permanent differences. Income tax expense was $3.0 million and $1.2 million for the three months ended October 1, 2011 and October 2, 2010, respectively, resulting in effective tax rates of 20.9% and 6.4%, respectively. Income tax expense was $13.9 million and $15.8 million for the nine months ended October 1, 2011 and October 2, 2010, respectively, resulting in effective tax rates of 38.0% and 20.7%, respectively. The effective tax rate for the three months ended October 1, 2011 increased from the prior period, primarily due to non-recurring benefits reflected in the prior period effective tax rate, including a reduction to the liability for unrecognized tax benefits and related interest accrual as well as tax return adjustments, partially offset by an increase in the research and development tax credit in the current period. The effective tax rate for the nine months ended October 1, 2011 increased from the prior period, primarily due to the tax charge related to the intercompany license of certain technology obtained in the acquisition of Spectra Linear and other one-time nondeductible costs associated with the acquisition of Spectra Linear recorded in the first quarter of 2011, as well as a decrease in the foreign tax rate benefit. These decreases were partially offset by an increase in the research and development tax credit.

At October 1, 2011, the Company had gross unrecognized tax benefits of $11.6 million, all of which would affect the effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes.

The tax years 2004 through 2011 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.

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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 2011 will have 52 weeks and fiscal 2010 had 52 weeks. Our third quarter of fiscal 2011 ended October 1, 2011. Our third quarter of fiscal 2010 ended October 2, 2010.

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 Amstrad, Cisco, Huawei, LG Electronics, Pace, Panasonic, Sagem, Samsung, Technicolor 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 and Europe, 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.

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:

- Broad-based products, which include our microcontrollers, timing products (clocks and oscillators), wireless receivers, isolation devices and human interface sensors;

- Broadcast products, which include our broadcast audio and video products;

- Access products, which include our embedded modems, Voice over IP (VoIP) products and our Power over Ethernet devices; and

- Mature products, which include certain devices that are at the end of their respective life cycles and therefore receive minimal or no continued research and development investment, including our DSL analog front end ICs and IRDA devices.

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 January 2011, we acquired Spectra Linear, Inc. Spectra Linear s family of low-power, highly programmable and small-footprint silicon clocking solutions is optimized for consumer electronics and embedded applications. The acquired products complement our existing timing product line by adding a broad family of ICs that we believe will accelerate penetration in high-volume applications.

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In the first nine months of fiscal 2011, we introduced single-chip hybrid TV receivers designed to simplify TV and set-top box designs, a multi-band radio receiver that streamlines the design of wheel-tuned radio products with digital displays, a silicon TV tuner solution for TV makers in China and Taiwan, next generation ISOmodem® embedded modems with advanced voice features for a wide range of data modem applications, six-channel digital isolators with isolation ratings up to 5 kV, a highly integrated, cost-effective and power-efficient subscriber line interface circuit (SLIC) solution for VoIP gateways, an energy-efficient wireless sensor node solution powered by a solar energy harvesting source, high-performance clock ICs for high-speed optical transport network (OTN) applications, two microcontroller families that simplify the addition of USB connectivity to embedded designs, next-generation infrared and ambient light sensors for human interface applications and a family of crystal oscillators and voltage-controlled crystal oscillators designed to minimize jitter, system cost and design complexity for a wide range of high-performance, cost-sensitive applications. 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 nine months ended October 1, 2011, 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 nine months ended October 1, 2011. 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. Three of our distributors, Edom Technology, Avnet and Macnica, represented 24%, 13% and 11% of our revenues during the nine months ended October 1, 2011, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues during the nine months ended October 1, 2011.

The percentage of our revenues derived from customers located outside of the United States was 87% during the nine months ended October 1, 2011. 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.

Because many of our ICs are designed for use in consumer products such as televisions, 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.

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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 customer. Our products typically carry a one-year replacement warranty. Replacements have been insignificant to date. Our revenues are subject to variation from period to period due to the volume of shipments made within a period, the mix of products we sell and the prices we charge for our products. The vast majority of our revenues were negotiated at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including: 1) to establish a relationship with a new customer, 2) as an incentive for customers to purchase products in larger volumes, 3) to provide profit margin to our distributors who resell our products or 4) in response to competition. In addition, as a product matures, we expect that the average selling price for such product will decline due to the greater availability of competing products. Our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as our ability to develop or acquire new products and subsequently achieve customer acceptance of newly introduced products.

Cost of Revenues. Cost of revenues includes the cost of purchasing finished silicon wafers processed by independent foundries; costs associated with assembly, test and shipping of those products; costs of personnel and equipment associated with manufacturing support, logistics and quality assurance; costs of software royalties and amortization of purchased software, other intellectual property license costs and certain acquired intangible assets; and an allocated portion of our occupancy costs.

Research and Development. Research and development expense consists primarily of personnel-related expenses, including stock-based compensation, new product mask, wafer, packaging and test costs, external consulting and services costs, equipment tooling, equipment depreciation, amortization of acquired intangible assets, as well as an allocated portion of our occupancy costs for such operations. Research and development activities include the design of new products, refinement of existing products and design of test methodologies to ensure compliance with required specifications.

Selling, General and Administrative. Selling, general and administrative expense consists primarily of personnel-related expenses, including stock-based compensation, related allocable portion of our occupancy costs, sales commissions to independent sales representatives, applications engineering support, professional fees, legal fees and promotional and marketing expenses.

Interest Income. Interest income reflects interest earned on our cash, cash equivalents and investment balances.

Interest Expense. Interest expense consists of interest on our short and long-term obligations.

Other Income (Expense), Net. Other income (expense), net consists primarily of foreign currency remeasurement adjustments as well as other non-operating income and expenses.

Provision for Income Taxes. Provision for income taxes includes both domestic and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses, research and development tax credits and other permanent differences.

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The following table sets forth our Condensed Consolidated Statements of Income data as a percentage of revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	38.8	34.5	39.4	33.6
Gross margin	61.2	65.5	60.6	66.4
Operating expenses:				
Research and development	26.6	25.6	27.7	23.9
Selling, general and administrative	22.9	23.8	23.4	22.7
Operating expenses	49.5	49.4	51.1	46.6
Operating income	11.7	16.1	9.5	19.8
Other income (expense):				
Interest income	0.4	0.4	0.4	0.4
Interest expense	0.0	0.0	0.0	0.0
Other income (expense), net	(0.1)	(0.3)	0.1	(0.3)
Income before income taxes	12.0	16.2	10.0	19.9
Provision for income taxes	2.5	1.0	3.8	4.1
Net income	9.5%	15.2%	6.2%	15.8%

Revenues

	Three Months Ended				Nine Months Ended			
(in millions)	October 1, 2011	October 2, 2010	Change	% Change	October 1, 2011	October 2, 2010	Change	% Change
Revenues	$ 119.1	$ 120.2	$ (1.1)	(0.9)%	$ 364.9	$ 381.5	$ (16.6)	(4.3)%

The decline in the sales of our products in the recent three and nine month periods was driven primarily by demand weakness. Unit volumes of our products increased by 4.6% and average selling prices decreased by 4.4% compared to the three months ended October 2, 2010. Unit volumes of our products decreased by 7.0% and average selling prices increased by 3.6% compared to the nine months ended October 2, 2010.

The average selling prices of our products may fluctuate significantly from period to period. In general, as our products become more mature, we expect to experience decreases in average selling prices. We anticipate that newly announced, higher priced, next generation products and product derivatives will offset some of these decreases.

Gross Margin

	Three Months Ended				Nine Months Ended			
(in millions)	October 1, 2011	October 2, 2010	Change	% Change	October 1, 2011	October 2, 2010	Change	% Change
Gross margin	$ 72.9	$ 78.7	$ (5.8)	(7.3)%	$ 221.3	$ 253.2	$ (31.9)	(12.6)%
Percent of revenue	61.2%	65.5%			60.6%	66.4%		

The decrease in gross margin in the recent three month period was primarily due to changes in product mix. The decrease in gross margin in the recent nine month period was primarily due to changes in product mix, decreased sales, charges related to the acquisition of Spectra Linear and a one-time charge for the cancellation of in-process material.

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We may experience declines in the average selling prices of certain of our products. This creates downward pressure on gross margin as a percentage of revenues and may be offset to the extent we are able to: 1) introduce higher margin new products and gain market share with our ICs; 2) achieve lower production costs from our wafer suppliers and third-party assembly and test subcontractors; 3) achieve lower production costs per unit as a result of improved yields throughout the manufacturing process; or 4) reduce logistics costs.

Research and Development

	Three Months Ended				Nine Months Ended			
(in millions)	October 1, 2011	October 2, 2010	Change	% Change	October 1, 2011	October 2, 2010	Change	% Change
Research and development	$ 31.7	$ 30.8	$ 0.9	3.1%	$ 101.2	$ 91.2	$ 10.0	11.0%
Percent of revenue	26.6%	25.6%			27.7%	23.9%		

The increase in research and development expense in the recent three and nine month periods was primarily due to increases of (a) $1.0 million and $7.2 million for personnel-related expenses, respectively, including zero and $1.6 million for one-time personnel costs associated with the acquisition of Spectra Linear, respectively, and (b) $0.6 million and $1.9 million for amortization of acquired intangible assets, respectively. We expect that research and development expense will increase in absolute dollars in the fourth quarter of 2011.

Recent development projects include single-chip hybrid TV receivers designed to simplify TV and set-top box designs, a multi-band radio receiver that streamlines the design of wheel-tuned radio products with digital displays, a silicon TV tuner solution for TV makers in China and Taiwan, next generation ISOmodem embedded modems with advanced voice features for a wide range of data modem applications, six-channel digital isolators with isolation ratings up to 5 kV, a highly integrated, cost-effective and power-efficient SLIC solution for VoIP gateways, an energy-efficient wireless sensor node solution powered by a solar energy harvesting source, high-performance clock ICs for high-speed OTN applications, two microcontroller families that simplify the addition of USB connectivity to embedded designs, next-generation infrared and ambient light sensors for human interface applications, a family of crystal oscillators and voltage-controlled crystal oscillators designed to minimize jitter, system cost and design complexity for a wide range of high-performance, cost-sensitive applications, a bridge chip family that simplifies the addition of USB and touch sense connectivity in embedded designs, the expansion of our automotive portfolio with a family of highly integrated AM/FM tuners for car stereos, frequency flexible in-circuit programmable CMOS clock generators and power management ICs that improve efficiency in PoE equipment.

Selling, General and Administrative

	Three Months Ended				Nine Months Ended			
(in millions)	October 1, 2011	October 2, 2010	Change	% Change	October 1, 2011	October 2, 2010	Change	% Change
Selling, general and administrative	$ 27.3	$ 28.6	$ (1.3)	(4.6)%	$ 85.2	$ 86.3	$ (1.1)	(1.3)%
Percent of revenue	22.9%	23.8%			23.4%	22.7%		

The decrease in selling, general and administrative expense in the recent three month period was principally due to (a) a decrease of $0.6 million for legal fees, primarily related to litigation and acquisition-related costs, and (b) a decline of $0.4 million in the fair value of acquisition-related

contingent consideration. The decrease in selling, general and administrative expense in the recent nine month period was principally due to a) a decrease of $1.7 million for legal fees, and (b) a decline of $1.3 million in the fair value of acquisition-related contingent consideration. The decrease in the nine month period was offset in part by an increase of $1.8 million for personnel-related expenses, including $3.0 million for one-time personnel costs associated with the acquisition of Spectra Linear. We expect that selling, general and administrative expense will remain relatively stable in absolute dollars in the fourth quarter of 2011.

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Interest Income

(in millions)	Three Months Ended October 1, 2011	Three Months Ended October 2, 2010	Change	Nine Months Ended October 1, 2011	Nine Months Ended October 2, 2010	Change
Interest income	$ 0.4	$ 0.5	$ (0.1)	$ 1.4	$ 1.8	$ (0.4)

Interest Expense

Interest expense for the three and nine months ended October 1, 2011 was $4 thousand and $14 thousand, respectively, compared to $21 thousand and $66 thousand for the three and nine months ended October 2, 2010, respectively.

Other Income (Expense), Net

Other income (expense), net for the three and nine months ended October 1, 2011 was $(0.1) million and $0.3 million, respectively, compared to $(0.4) million and $(1.3) million for the three and nine months ended October 2, 2010, respectively.

Provision for Income Taxes

(in millions)	Three Months Ended October 1, 2011	Three Months Ended October 2, 2010	Change	Nine Months Ended October 1, 2011	Nine Months Ended October 2, 2010	Change
Provision for income taxes	$ 3.0	$ 1.2	$ 1.8	$ 13.9	$ 15.8	$ (1.9)
Effective tax rate	20.9%	6.4%		38.0%	20.7%	

The effective tax rate for the three months ended October 1, 2011 increased from the prior period, primarily due to non-recurring benefits reflected in the prior period effective tax rate, including a reduction to the liability for unrecognized tax benefits and related interest accrual as well as tax return adjustments, partially offset by an increase in the research and development tax credit in the current period. The effective tax rate for the nine months ended October 1, 2011 increased from the prior period, primarily due to the tax charge related to the intercompany license of certain technology obtained in the acquisition of Spectra Linear and other one-time nondeductible costs associated with the acquisition of Spectra Linear recorded in the first quarter of 2011, as well as a decrease in the foreign tax rate benefit. These decreases were partially offset by an increase in the research and development tax credit.

The effective tax rates for each of the periods presented differ from the federal statutory rate of 35% due to the amount of income earned in foreign jurisdictions where the tax rate may be lower than the federal statutory rate, research and development tax credits and other permanent items including changes to the liability for unrecognized tax benefits.

Business Outlook

We expect revenues in the fourth quarter of fiscal 2011 to be in the range of up 3% to down 3% sequentially. Furthermore, we expect our diluted earnings per share to be in the range of $0.21 to $0.27.

Liquidity and Capital Resources

Our principal sources of liquidity as of October 1, 2011 consisted of $283.1 million in cash, cash equivalents and short-term investments. Our cash equivalents and short-term investments consist of corporate bonds, market funds, municipal bonds, variable-rate demand notes, U.S. government agency bonds, U.S. Treasury bills, international government bonds, certificates of deposit, asset-backed securities and commercial paper.

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Our long-term investments consist of auction-rate securities. Early in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of October 1, 2011, we held $19.3 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2029 to 2046. We are receiving the underlying cash flows on all of our 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 security, a buyer is found outside of the auction process or the underlying securities mature. We are unable to predict if these funds will become available before their maturity dates. We do not expect to need access to the capital represented by any of our auction-rate securities prior to their maturities.

Net cash provided by operating activities was $65.6 million during the nine months ended October 1, 2011, compared to net cash provided of $83.5 million during the nine months ended October 2, 2010. Operating cash flows during the nine months ended October 1, 2011 reflect our net income of $22.7 million, adjustments of $48.1 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of $5.2 million due to changes in our operating assets and liabilities.

Accounts receivable increased to $58.4 million at October 1, 2011 from $45.0 million at January 1, 2011. The increase in accounts receivable resulted primarily from (a) a larger portion of the shipments occurring in the second half of the quarter ended October 1, 2011 in contrast to the more linear shipments that occurred during the last quarter of fiscal 2010, and (b) an increase in shipments during the quarter ended October 1, 2011 compared to the last quarter of fiscal 2010. Our average days sales outstanding (DSO) was 44 days at October 1, 2011 and 36 days at January 1, 2011.

Inventory decreased to $38.4 million at October 1, 2011 from $39.4 million at January 1, 2011. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. Our average days of inventory (DOI) was 75 days at October 1, 2011 and 87 days at January 1, 2011.

Net cash provided by investing activities was $16.9 million during the nine months ended October 1, 2011, compared to net cash used of $48.3 million during the nine months ended October 2, 2010. The increase in cash inflows was principally due to an increase of $68.4 million in net inflows for sales and maturities of investments.

We anticipate capital expenditures of approximately $10 to $15 million for fiscal 2011. Additionally, as part of our growth strategy, we expect to evaluate opportunities to invest in or acquire other businesses, intellectual property or technologies that would complement or expand our current offerings, expand the breadth of our markets or enhance our technical capabilities.

Net cash used in financing activities was $112.8 million during the nine months ended October 1, 2011, compared to net cash used of $123.3 million during the nine months ended October 2, 2010. The decrease in cash outflows was principally due to a decrease of $30.3 million for repurchases of our common stock, offset by decrease of $12.7 million from proceeds from the issuance of common stock, net of shares withheld for taxes and a payment of $7.2 million on debt acquired in the acquisition of Spectra Linear. In July 2010, our Board of Directors authorized a program to repurchase up to $150 million of our common stock prior to the end of 2011. The program was completed in August 2011.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects, potential acquisitions of companies or technologies and the expansion of our sales and

marketing activities. We believe our existing cash and investment balances are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing.

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Critical Accounting Policies and Estimates

The preparation of financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in the financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition, including the deferral of revenues and cost of revenues on sales to distributors; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

Inventory valuation We assess the recoverability of inventories through the application of a set of methods, assumptions and estimates. In determining net realizable value, we write down inventory that may be slow moving or have some form of obsolescence, including inventory that has aged more than 12 months. We also adjust the valuation of inventory when its standard cost exceeds the estimated market value. We assess the potential for any unusual customer returns based on known quality or business issues and write-off inventory losses for scrap or non-saleable material. Inventory not otherwise identified to be written down is compared to an assessment of our 12-month forecasted demand. The result of this methodology is compared against the product life cycle and competitive situations in the marketplace to determine the appropriateness of the resulting inventory levels. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those that we project. In the event that actual demand is lower or market conditions are worse than originally projected, additional inventory write-downs may be required.

Stock-based compensation We recognize the fair-value of stock-based compensation transactions in the Consolidated Statement of Income. The fair value of our full-value stock awards equals the fair market value of our stock on the date of grant. The fair value of our stock option and Employee Stock Purchase Plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 9, *Stock-Based Compensation*, to the Condensed Consolidated Financial Statements for additional information.

Investments in auction-rate securities We determine the fair value of our investments in auction-rate securities 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 our inability to liquidate the securities. For available-for-sale auction-rate securities, if the calculated value is below the carrying amount of the securities, we then determine if the decline in value is other-than-temporary. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, our intent to sell or the likelihood that we 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. When we conclude that an other-than-temporary impairment has occurred, we assess whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery. If either of these two conditions is met, we recognize a charge in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If we do not intend to sell a security or it is not more likely than not that we will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recorded in accumulated other comprehensive loss.

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Acquired intangible assets When we acquire a business, a portion of the purchase price is typically allocated to identifiable intangible assets, such as acquired technology and customer relationships. Fair value of these assets is determined primarily using the income approach, which requires us to project future cash flows and apply an appropriate discount rate. We amortize intangible assets with finite lives over their expected useful lives. Our estimates are based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. Incorrect estimates could result in future impairment charges, and those charges could be material to our results of operations.

Impairment of goodwill and other long-lived assets We review long-lived assets which are held and used, including fixed assets and purchased intangible assets, for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such evaluations compare the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset over its expected useful life and are significantly impacted by estimates of future prices and volumes for our products, capital needs, economic trends and other factors which are inherently difficult to forecast. If the asset is considered to be impaired, we record an impairment charge equal to the amount by which the carrying value of the asset exceeds its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

We test our goodwill for impairment annually as of the first day of our fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares our fair value to our net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. If the fair value is less than the net book value, the second step of the analysis compares the implied fair value of our goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, we recognize an impairment loss equal to that excess amount.

Income taxes We are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax liability together with assessing temporary differences in recognition of income (loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet. We then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance against the deferred tax asset.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step requires us to determine if the weight of available evidence indicates that the tax position has met the threshold for recognition; therefore, we must evaluate whether it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step requires us to measure the tax benefit of the tax position taken, or expected to be taken, in an income tax return as the largest amount that is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently complex and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We re-evaluate the uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, expirations of statutes of limitation, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Although we believe the measurement of our liabilities for uncertain tax positions is reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. If additional taxes are assessed as a result of an audit or litigation, it could have a material effect on our income tax provision and net income in the period or periods for which that determination is made. We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues which may require an extended period of time to resolve and could result in additional assessments of income tax. We believe adequate provisions for income taxes have been made for all periods.

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Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the two-step impairment test. If an entity concludes otherwise, then the two-step impairment test is not required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on our financial statements.

In June 2011, the FASB issued FASB ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. This ASU requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively. The adoption of this ASU is not expected to have a material impact on our financial statements.

In May 2011, the FASB issued FASB ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this ASU is not expected to have a material impact on our financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-term investments and long-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our investment portfolio holdings as of October 1, 2011 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of October 1, 2011 would decrease our annual interest income by approximately $1.9 million. We believe that our investment policy is conservative, both in the duration of our investments and the credit quality of the investments we hold.

Headquarters Lease Rent

We are exposed to interest rate fluctuations in the normal course of our business, including through our corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. We 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. In March 2011, the Company s swap agreement with a notional value of $44.3 million matured and was not renewed. The fair value of the remaining interest rate swap agreement at October 1, 2011 was a $2.5 million obligation.

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Investments in Auction-rate Securities

Beginning in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of October 1, 2011, we held $19.3 million par value auction-rate securities, all of which have experienced failed auctions. 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. We are unable to predict if these funds will become available before their maturity dates. Additionally, if we determine that an other-than-temporary decline in the fair value of any of our available-for-sale auction-rate securities has occurred, we may be required to adjust the carrying value of the investments through an impairment charge.

Available Information

Our website address is www.silabs.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our website and the information contained therein or connected thereto are not intended to be incorporated into this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information related to quantitative and qualitative disclosures regarding market risk is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 2 above. Such information is incorporated by reference herein.

Item 4. Controls and Procedures

We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of October 1, 2011 to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures. There was no change in our internal controls during the fiscal quarter ended October 1, 2011 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

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 us, four of our officers individually and the three investment banking firms who served as representatives of the underwriters in connection with our initial public offering of common stock. The Consolidated Amended Complaint alleges that the registration statement and prospectus for our 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 our four officers who had been named individually. On December 5, 2006, the Second Circuit vacated a decision by the District Court granting class certification in six of the coordinated cases, which are intended to serve as test, or focus cases. The plaintiffs selected these six cases, which do not include us. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the District Court to certify more narrow classes than those that were rejected.

The parties in the approximately 300 coordinated cases, including the parties in the case against us, reached a settlement. The insurers for the issuer defendants in the coordinated cases will make the settlement payment on behalf of the issuers, including us. On October 5, 2009, the Court granted final approval of the settlement. Judgment was entered on January 10, 2010. The settlement approval was appealed to the United States Court of Appeals for the Second Circuit. One appeal was dismissed and the second appeal was remanded to the District Court to determine if the appellant is a class member with standing to appeal. The District Court ruled that the appellant is not a class member with standing to appeal. The appellant has filed with the United States Court of Appeals for the Second Circuit a notice of appeal of the District Court opinion that he is not a class member.

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

Other

We are 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, we do not expect them to have a material adverse effect on our consolidated financial position or results of operations.

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Item 1A. Risk Factors

Risks Related to our Business

We may not be able to maintain our historical growth and may experience significant period-to-period fluctuations in our revenues and operating results, which may result in volatility in our stock price

Although we have generally experienced revenue growth in our history, we may not be able to sustain this growth. We may also experience significant period-to-period fluctuations in our revenues and operating results in the future due to a number of factors, and any such variations may cause our stock price to fluctuate. In some future period our revenues or operating results may be below the expectations of public market analysts or investors. If this occurs, our stock price may drop, perhaps significantly.

A number of factors, in addition to those cited in other risk factors applicable to our business, may contribute to fluctuations in our revenues and operating results, including:

- The timing and volume of orders received from our customers;

- The timeliness of our new product introductions and the rate at which our new products may cannibalize our older products;

- The rate of acceptance of our products by our customers, including the acceptance of new products we may develop for integration in the products manufactured by such customers, which we refer to as design wins ;

- The time lag and realization rate between design wins and production orders;

- The demand for, and life cycles of, the products incorporating our ICs;

- The rate of adoption of mixed-signal ICs in the markets we target;

- Deferrals or reductions of customer orders in anticipation of new products or product enhancements from us or our competitors or other providers of ICs;

- Changes in product mix;

- The average selling prices for our products could drop suddenly due to competitive offerings or competitive predatory pricing, especially with respect to our mobile handset products;

- The average selling prices for our products generally decline over time;

- Changes in market standards;

- Impairment charges related to inventory, equipment or other long-lived assets;

- The software used in our products, including software provided by third-parties, may not meet the needs of our customers;

- Significant legal costs to defend our intellectual property rights or respond to claims against us; and

- The rate at which new markets emerge for products we are currently developing or for which our design expertise can be utilized to develop products for these new markets.

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The markets for mobile handsets, consumer electronics, satellite set-top boxes and VoIP applications are characterized by rapid fluctuations in demand and seasonality that result in corresponding fluctuations in the demand for our products that are incorporated in such devices. Additionally, the rate of technology acceptance by our customers results in fluctuating demand for our products as customers are reluctant to incorporate a new IC into their products until the new IC has achieved market acceptance. Once a new IC achieves market acceptance, demand for the new IC can quickly accelerate to a point and then level off such that rapid historical growth in sales of a product should not be viewed as indicative of continued future growth. In addition, demand can quickly decline for a product when a new IC product is introduced and receives market acceptance. Due to the various factors mentioned above, the results of any prior quarterly or annual periods should not be relied upon as an indication of our future operating performance.

If we are unable to develop or acquire new and enhanced products that achieve market acceptance in a timely manner, our operating results and competitive position could be harmed

Our future success will depend on our ability to reduce our dependence on a few products by developing or acquiring new ICs and product enhancements that achieve market acceptance in a timely and cost-effective manner. The development of mixed-signal ICs is highly complex, and we have at times experienced delays in completing the development and introduction of new products and product enhancements. Successful product development and market acceptance of our products depend on a number of factors, including:

- Requirements of customers;
- Accurate prediction of market and technical requirements;
- Timely completion and introduction of new designs;
- Timely qualification and certification of our ICs for use in our customers products;
- Commercial acceptance and volume production of the products into which our ICs will be incorporated;
- Availability of foundry, assembly and test capacity;
- Achievement of high manufacturing yields;

- Quality, price, performance, power use and size of our products;

- Availability, quality, price and performance of competing products and technologies;

- Our customer service, application support capabilities and responsiveness;

- Successful development of our relationships with existing and potential customers;

- Technology, industry standards or end-user preferences; and

- Cooperation of third-party software providers and our semiconductor vendors to support our chips within a system.

We cannot provide any assurance that products which we recently have developed or may develop in the future will achieve market acceptance. We have introduced to market or are in development of many ICs. If our ICs fail to achieve market acceptance, or if we fail to develop new products on a timely basis that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected.

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Our research and development efforts are focused on a limited number of new technologies and products, and any delay in the development, or abandonment, of these technologies or products by industry participants, or their failure to achieve market acceptance, could compromise our competitive position

Our ICs are used as components in electronic devices in various markets. As a result, we have devoted and expect to continue to devote a large amount of resources to develop products based on new and emerging technologies and standards that will be commercially introduced in the future. Research and development expense during the nine months ended October 1, 2011 was $101.2 million, or 27.7% of revenues. A number of large companies are actively involved in the development of these new technologies and standards. Should any of these companies delay or abandon their efforts to develop commercially available products based on new technologies and standards, our research and development efforts with respect to these technologies and standards likely would have no appreciable value. In addition, if we do not correctly anticipate new technologies and standards, or if the products that we develop based on these new technologies and standards fail to achieve market acceptance, our competitors may be better able to address market demand than we would. Furthermore, if markets for these new technologies and standards develop later than we anticipate, or do not develop at all, demand for our products that are currently in development would suffer, resulting in lower sales of these products than we currently anticipate.

We depend on a limited number of customers for a substantial portion of our revenues, and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our revenues

The loss of any of our key customers, or a significant reduction in sales to any one of them, would significantly reduce our revenues and adversely affect our business. During the nine months ended October 1, 2011, our ten largest customers accounted for 37% of our revenues. Some of the markets for our products are dominated by a small number of potential customers. Therefore, our operating results in the foreseeable future will continue to depend on our ability to sell to these dominant customers, as well as the ability of these customers to sell products that incorporate our IC products. In the future, these customers may decide not to purchase our ICs at all, purchase fewer ICs than they did in the past or alter their purchasing patterns, particularly because:

- We do not have material long-term purchase contracts with our customers;

- Substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;

- Some of our customers may have efforts underway to actively diversify their vendor base which could reduce purchases of our ICs; and

- Some of our customers have developed or acquired products that compete directly with products these customers purchase from us, which could affect our customers purchasing decisions in the future.

While we have been a significant supplier of ICs used in many of our customers products, our customers regularly evaluate alternative sources of supply in order to diversify their supplier base, which increases their negotiating leverage with us and protects their ability to secure these components. We believe that any expansion of our customers supplier bases could have an adverse effect on the prices we are able to charge and volume of product that we are able to sell to our customers, which would negatively affect our revenues and operating results.

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Significant litigation over intellectual property in our industry may cause us to become involved in costly and lengthy litigation which could seriously harm our business

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. From time to time, we receive letters from various industry participants alleging infringement of patents, trademarks or misappropriation of trade secrets or from customers or suppliers requesting indemnification for claims brought against them by third parties. The exploratory nature of these inquiries has become relatively common in the semiconductor industry. We respond when we deem appropriate and as advised by legal counsel. We have been involved in litigation to protect our intellectual property rights in the past and may become involved in such litigation again in the future. In the future, we may become involved in additional litigation to defend allegations of infringement asserted by others, both directly and indirectly as a result of certain industry-standard indemnities we may offer to our customers or suppliers. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. Legal proceedings initiated by us to protect our intellectual property rights could also result in counterclaims or countersuits against us. Any litigation, regardless of its outcome, would likely be time-consuming and expensive to resolve and would divert our management s time and attention. Most intellectual property litigation also could force us to take specific actions, including:

- Cease selling or manufacturing products that use the challenged intellectual property;

- Obtain from the owner of the infringed intellectual property a right to a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all;

- Redesign those products that use infringing intellectual property; or

- Pursue legal remedies with third parties to enforce our indemnification rights, which may not adequately protect our interests.

We may be unable to protect our intellectual property, which would negatively affect our ability to compete

Our products rely on our proprietary technology, and we expect that future technological advances made by us will be critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants, intellectual property providers and business partners, and control access to and distribution of our documentation and other proprietary information. Despite these efforts, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We cannot be certain that patents will be issued as a result of our pending applications nor can we be certain that any issued patents would protect or benefit us or give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable. We also cannot be certain that others will not develop effective competing technologies on their own.

Failure to manage our distribution channel relationships could impede our future growth

The future growth of our business will depend in large part on our ability to manage our relationships with current and future distributors and sales representatives, develop additional channels for the distribution and sale of our products and manage these relationships. As we execute our indirect sales strategy, we must manage the potential conflicts that may arise with our direct sales efforts. For example, conflicts with a distributor may arise when a customer begins purchasing directly from us rather than through the distributor. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth. In addition, relationships with our distributors often involve the use of price protection and inventory return rights. This often requires a significant amount of sales management s time and system resources to manage properly.

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We are subject to increased inventory risks and costs because we build our products based on forecasts provided by customers before receiving purchase orders for the products

In order to ensure availability of our products for some of our largest customers, we start the manufacturing of our products in advance of receiving purchase orders based on forecasts provided by these customers. However, these forecasts do not represent binding purchase commitments and we do not recognize sales for these products until they are shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated sales. Because demand for our products may not materialize, manufacturing based on forecasts subjects us to increased risks of high inventory carrying costs, increased obsolescence and increased operating costs. These inventory risks are exacerbated when our customers purchase indirectly through contract manufacturers or hold component inventory levels greater than their consumption rate because this causes us to have less visibility regarding the accumulated levels of inventory for such customers. A resulting write-off of unusable or excess inventories would adversely affect our operating results.

Our products are complex and may contain errors which could lead to product liability, an increase in our costs and/or a reduction in our revenues

Our products are complex and may contain errors, particularly when first introduced or as new versions are released. Our new products are increasingly being designed in more complex processes which further increases the risk of errors. We rely primarily on our in-house testing personnel to design test operations and procedures to detect any errors prior to delivery of our products to our customers. Because our products are manufactured by third parties, should problems occur in the operation or performance of our ICs, we may experience delays in meeting key introduction dates or scheduled delivery dates to our customers. These errors also could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems. Any defects could require product replacement or recall or we could be obligated to accept product returns. Any of the foregoing could impose substantial costs and harm our business.

Product liability claims may be asserted with respect to our products. Our products are typically sold at prices that are significantly lower than the cost of the end-products into which they are incorporated. A defect or failure in our product could cause failure in our customer s end-product, so we could face claims for damages that are disproportionately higher than the revenues and profits we receive from the products involved. Furthermore, product liability risks are particularly significant with respect to medical and automotive applications because of the risk of serious harm to users of these products. There can be no assurance that any insurance we maintain will sufficiently protect us from any such claims.

Any acquisitions we make could disrupt our business and harm our financial condition

As part of our growth and product diversification strategy, we continue to evaluate opportunities to acquire other businesses, intellectual property or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. The acquisitions that we have made and may make in the future entail a number of risks that could materially and adversely affect our business and operating results, including:

- Problems integrating the acquired operations, technologies or products with our existing business and products;

- Diversion of management s time and attention from our core business;

- Need for financial resources above our planned investment levels;

- Difficulties in retaining business relationships with suppliers and customers of the acquired company;

- Risks associated with entering markets in which we lack prior experience;

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- Risks associated with the transfer of licenses of intellectual property;
- Increased operating costs due to acquired overhead;
- Tax issues associated with acquisitions;
- Acquisition-related disputes, including disputes over earn-outs and escrows;
- Potential loss of key employees of the acquired company; and
- Potential impairment of related goodwill and intangible assets.

Future acquisitions also could cause us to incur debt or contingent liabilities or cause us to issue equity securities that could negatively impact the ownership percentages of existing shareholders.

Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves testing of the products in the customer s system as well as rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not ensure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the IC or software, changes in the IC s manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may impede our growth and cause our business to suffer.

We have substantial international activities, which subjects us to additional business risks including logistical and financial complexity, political instability and currency fluctuations

We have established international subsidiaries and have opened offices in international markets to support our activities in Europe and Asia. This has included the establishment of a headquarters in Singapore for non-U.S. operations. The percentage of our revenues derived from customers located outside of the United States was 87% during the nine months ended October 1, 2011. We may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- Complexity and costs of managing international operations and related tax obligations, including our headquarters for non-U.S. operations in Singapore;

- Protectionist laws and business practices that favor local competition in some countries;

- Difficulties related to the protection of our intellectual property rights in some countries;

- Multiple, conflicting and changing tax and other laws and regulations that may impact both our international and domestic tax and other liabilities and result in increased complexity and costs;

- Longer sales cycles;

- Greater difficulty in accounts receivable collection and longer collection periods;

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- High levels of distributor inventory subject to price protection and rights of return to us;

- Political and economic instability;

- Greater difficulty in hiring and retaining qualified technical sales and applications engineers and administrative personnel; and

- The need to have business and operations systems that can meet the needs of our international business and operating structure.

To date, all of our sales to international customers and purchases of components from international suppliers have been denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering our products less competitive.

We rely on third parties to manufacture, assemble and test our products and the failure to successfully manage our relationships with our manufacturers and subcontractors would negatively impact our ability to sell our products

We do not have our own wafer fab manufacturing facilities. Therefore, we rely on third-party vendors to manufacture the ICs we design. We also currently rely on Asian third-party assembly subcontractors to assemble and package the silicon chips provided by the wafers for use in final products. Additionally, we rely on these offshore subcontractors for a substantial portion of the testing requirements of our products prior to shipping. We expect utilization of third-party subcontractors to continue in the future.

The cyclical nature of the semiconductor industry drives wide fluctuations in available capacity at third-party vendors. On occasion, we have been unable to adequately respond to unexpected increases in customer demand due to capacity constraints and, therefore, were unable to benefit from this incremental demand. We may be unable to obtain adequate foundry, assembly or test capacity from our third-party subcontractors to meet our customers delivery requirements even if we adequately forecast customer demand.

There are significant risks associated with relying on these third-party foundries and subcontractors, including:

- Failure by us, our customers or their end customers to qualify a selected supplier;

- Potential insolvency of the third-party subcontractors;

- Reduced control over delivery schedules and quality;
- Limited warranties on wafers or products supplied to us;
- Potential increases in prices or payments in advance for capacity;
- Increased need for international-based supply, logistics and financial management;
- Their inability to supply or support new or changing packaging technologies; and
- Low test yields.

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We typically do not have long-term supply contracts with our third-party vendors which obligate the vendor to perform services and supply products to us for a specific period, in specific quantities, and at specific prices. Our third-party foundry, assembly and test subcontractors typically do not guarantee that adequate capacity will be available to us within the time required to meet demand for our products. In the event that these vendors fail to meet our demand for whatever reason, we expect that it would take up to 12 months to transition performance of these services to new providers. Such a transition may also require qualification of the new providers by our customers or their end customers.

Since our inception, most of the silicon wafers for the products that we have shipped were manufactured either by Taiwan Semiconductor Manufacturing Co. (TSMC) or its affiliates. Our customers typically complete their own qualification process. If we fail to properly balance customer demand across the existing semiconductor fabrication facilities that we utilize or are required by our foundry partners to increase, or otherwise change the number of fab lines that we utilize for our production, we might not be able to fulfill demand for our products and may need to divert our engineering resources away from new product development initiatives to support the fab line transition, which would adversely affect our operating results.

Our products incorporate technology licensed from third parties

We incorporate technology (including software) licensed from third parties in our products. We could be subjected to claims of infringement regardless of our lack of involvement in the development of the licensed technology. Although a third party licensor is typically obligated to indemnify us if the licensed technology infringes on another party s intellectual property rights, such indemnification is typically limited in amount and may be worthless if the licensor becomes insolvent. See *Significant litigation over intellectual property in our industry may cause us to become involved in costly and lengthy litigation which could seriously harm our business.* Furthermore, any failure of third party technology to perform properly would adversely affect sales of our products incorporating such technology.

Our inability to manage growth could materially and adversely affect our business

Our past growth has placed, and any future growth of our operations will continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded sales, operational and financial enterprise-wide systems, information technology infrastructure, procedures and controls, including the improvement of our accounting and other internal management systems to manage this growth and maintain compliance with regulatory guidelines, including Sarbanes-Oxley Act requirements. To the extent our business grows, our internal management systems and processes will need to improve to ensure that we remain in compliance. We also expect that we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort, and we anticipate that we will require additional management personnel and internal processes to manage these efforts and to plan for the succession from time to time of certain persons who have been key management and technical personnel. If we are unable to effectively manage our expanding global operations, including our international headquarters in Singapore, our business could be materially and adversely affected.

We are subject to risks relating to product concentration

We derive a substantial portion of our revenues from a limited number of products, and we expect these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of these products, is therefore, critical to our future success. In

addition, substantially all of our products that we have sold include technology related to one or more of our issued U.S. patents. If these patents are found to be invalid or unenforceable, our competitors could introduce competitive products that could reduce both the volume and price per unit of our products. Our business, operating results, financial condition and cash flows could therefore be adversely affected by:

- A decline in demand for any of our more significant products;

- Failure of our products to achieve continued market acceptance;

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- Competitive products;

- New technological standards or changes to existing standards that we are unable to address with our products;

- A failure to release new products or enhanced versions of our existing products on a timely basis; and

- The failure of our new products to achieve market acceptance.

We are subject to credit risks related to our accounts receivable

We do not generally obtain letters of credit or other security for payment from customers, distributors or contract manufacturers. Accordingly, we are not protected against accounts receivable default or bankruptcy by these entities. The current economic situation could increase the likelihood of such defaults and bankruptcies. Our ten largest customers or distributors represent a substantial majority of our accounts receivable. If any such customer or distributor, or a material portion of our smaller customers or distributors, were to become insolvent or otherwise not satisfy their obligations to us, we could be materially harmed.

We depend on our key personnel to manage our business effectively in a rapidly changing market, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and successfully market our products could be harmed

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel. We believe that our future success will be dependent on retaining the services of our key personnel, developing their successors and certain internal processes to reduce our reliance on specific individuals, and on properly managing the transition of key roles when they occur. There is currently a shortage of qualified personnel with significant experience in the design, development, manufacturing, marketing and sales of analog and mixed-signal ICs. In particular, there is a shortage of engineers who are familiar with the intricacies of the design and manufacturability of analog elements, and competition for such personnel is intense. Our key technical personnel represent a significant asset and serve as the primary source for our technological and product innovations. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth. The loss of any of our key employees or the inability to attract or retain qualified personnel both in the United States and internationally, including engineers, sales, applications and marketing personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

Any dispositions could harm our financial condition

Any disposition of a product line would entail a number of risks that could materially and adversely affect our business and operating results, including:

- Diversion of management s time and attention from our core business;
- Difficulties separating the divested business;
- Risks to relations with customers who previously purchased products from our disposed product line;
- Reduced leverage with suppliers due to reduced aggregate volume;
- Risks related to employee relations;
- Risks associated with the transfer and licensing of intellectual property;

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- Security risks and other liabilities related to the transition services provided in connection with the disposition;

- Tax issues associated with dispositions; and

- Disposition-related disputes, including disputes over earn-outs and escrows.

Our stock price may be volatile

The market price of our common stock has been volatile in the past and may be volatile in the future. The market price of our common stock may be significantly affected by the following factors:

- Actual or anticipated fluctuations in our operating results;

- Changes in financial estimates by securities analysts or our failure to perform in line with such estimates;

- Changes in market valuations of other technology companies, particularly semiconductor companies;

- Announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

- Introduction of technologies or product enhancements that reduce the need for our products;

- The loss of, or decrease in sales to, one or more key customers;

- A large sale of stock by a significant shareholder;

- Dilution from the issuance of our stock in connection with acquisitions;

- The addition or removal of our stock to or from a stock index fund;

- Departures of key personnel; and

- The required expensing of stock awards.

The stock market has experienced extreme volatility that often has been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our performance.

Most of our current manufacturers, assemblers, test service providers, distributors and customers are concentrated in the same geographic region, which increases the risk that a natural disaster, epidemic, labor strike, war or political unrest could disrupt our operations or sales

Most of TSMC s foundries and several of our assembly and test subcontractors sites are located in Taiwan and most of our other foundry, assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located in the Pacific Rim region. The risk of earthquakes in Taiwan and the Pacific Rim region is significant due to the proximity of major earthquake fault lines in the area. Earthquakes, tsunamis, fire, flooding, lack of water or other natural disasters, an epidemic, political unrest, war, labor strikes or work stoppages in countries where our semiconductor manufacturers, assemblers and test subcontractors are located, likely would result in the disruption of our foundry, assembly or test capacity. There can be no assurance that alternate capacity could be obtained on favorable terms, if at all.

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A natural disaster, epidemic, labor strike, war or political unrest where our customers facilities are located would likely reduce our sales to such customers. North Korea s geopolitical maneuverings have created unrest. Such unrest could create economic uncertainty or instability, could escalate to war or otherwise adversely affect South Korea and our South Korean customers and reduce our sales to such customers, which would materially and adversely affect our operating results. In addition, a significant portion of the assembly and testing of our products occurs in South Korea. Any disruption resulting from these events could also cause significant delays in shipments of our products until we are able to shift our manufacturing, assembling or testing from the affected subcontractor to another third-party vendor.

The semiconductor manufacturing process is highly complex and, from time to time, manufacturing yields may fall below our expectations, which could result in our inability to satisfy demand for our products in a timely manner and may decrease our gross margins due to higher unit costs

The manufacturing of our products is a highly complex and technologically demanding process. Although we work closely with our foundries and assemblers to minimize the likelihood of reduced manufacturing yields, we have from time to time experienced lower than anticipated manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials could result in lower than anticipated manufacturing yields or unacceptable performance deficiencies, which could lower our gross margins. If our foundries fail to deliver fabricated silicon wafers of satisfactory quality in a timely manner, we will be unable to meet our customers demand for our products in a timely manner, which would adversely affect our operating results and damage our customer relationships.

We depend on our customers to support our products, and some of our customers offer competing products

Our products are currently used by our customers to produce modems, telephony equipment, mobile handsets, networking equipment and a broad range of other devices. We rely on our customers to provide hardware, software, intellectual property indemnification and other technical support for the products supplied by our customers. If our customers do not provide the required functionality or if our customers do not provide satisfactory support for their products, the demand for these devices that incorporate our products may diminish or we may otherwise be materially adversely affected. Any reduction in the demand for these devices would significantly reduce our revenues.

In certain products, some of our customers offer their own competitive products. These customers may find it advantageous to support their own offerings in the marketplace in lieu of promoting our products.

We could seek to raise additional capital in the future through the issuance of equity or debt securities, but additional capital may not be available on terms acceptable to us, or at all

We believe that our existing cash, cash equivalents and investments will be sufficient to meet our working capital needs, capital expenditures, investment requirements and commitments for at least the next 12 months. However, it is possible that we may need to raise additional funds to finance our activities or to facilitate acquisitions of other businesses, products, intellectual property or technologies. We believe we could raise these funds, if needed, by selling equity or debt securities to the public or to selected investors. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. However, we may not be able to obtain additional funds on favorable terms, or at all. If we decide to raise additional funds by issuing equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced.

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We are a relatively small company with limited resources compared to some of our current and potential competitors and we may not be able to compete effectively and increase market share

Some of our current and potential competitors have longer operating histories, significantly greater resources and name recognition and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. In addition, some of our current and potential competitors have already established supplier or joint development relationships with the decision makers at our current or potential customers. These competitors may be able to leverage their existing relationships to discourage their customers from purchasing products from us or persuade them to replace our products with their products. Our competitors may also offer bundled solutions offering a more complete product despite the technical merits or advantages of our products. These competitors may elect not to support our products which could complicate our sales efforts. These and other competitive pressures may prevent us from competing successfully against current or future competitors, and may materially harm our business. Competition could decrease our prices, reduce our sales, lower our gross margins and/or decrease our market share.

Provisions in our charter documents and Delaware law could prevent, delay or impede a change in control of us and may reduce the market price of our common stock

Provisions of our certificate of incorporation and bylaws could have the effect of discouraging, delaying or preventing a merger or acquisition that a stockholder may consider favorable. For example, our certificate of incorporation and bylaws provide for:

- The division of our Board of Directors into three classes to be elected on a staggered basis, one class each year;

- The ability of our Board of Directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;

- A prohibition on stockholder action by written consent;

- Elimination of the right of stockholders to call a special meeting of stockholders;

- A requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders; and

- A requirement that a supermajority vote be obtained to amend or repeal certain provisions of our certificate of incorporation.

We also are subject to the anti-takeover laws of Delaware which may discourage, delay or prevent someone from acquiring or merging with us, which may adversely affect the market price of our common stock.

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Risks related to our industry

We are subject to the cyclical nature of the semiconductor industry, which has been subject to significant fluctuations

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced significant fluctuations, often connected with, or in anticipation of, maturing product cycles and new product introductions of both semiconductor companies and their customers products and fluctuations in general economic conditions. Deteriorating general worldwide economic conditions, including reduced economic activity, concerns about credit and inflation, increased energy costs, decreased consumer confidence, reduced corporate profits, decreased spending and similar adverse business conditions, would make it very difficult for our customers, our vendors, and us to accurately forecast and plan future business activities and could cause U.S. and foreign businesses to slow spending on our products. We cannot predict the timing, strength, or duration of any economic slowdown or economic recovery. If the economy or markets in which we operate deteriorate, our business, financial condition, and results of operations would likely be materially and adversely affected.

Downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. In the recent past, we believe the semiconductor industry suffered a downturn due in large part to adverse conditions in the global credit and financial markets, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increased unemployment rates and general uncertainty regarding the economy. Such downturns may have a material adverse effect on our business and operating results.

Upturns have been characterized by increased product demand and production capacity constraints created by increased competition for access to third-party foundry, assembly and test capacity. We are dependent on the availability of such capacity to manufacture, assemble and test our ICs. None of our third-party foundry, assembly or test subcontractors have provided assurances that adequate capacity will be available to us.

The average selling prices of our products could decrease rapidly which may negatively impact our revenues and gross margins

We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. We have reduced the average unit price of our products in anticipation of or in response to competitive pricing pressures, new product introductions by us or our competitors and other factors. If we are unable to offset any such reductions in our average selling prices by increasing our sales volumes, increasing our sales content per application or reducing production costs, our gross margins and revenues will suffer. To maintain our gross margin percentage, we will need to develop and introduce new products and product enhancements on a timely basis and continually reduce our costs. Our failure to do so could cause our revenues and gross margin percentage to decline.

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Competition within the numerous markets we target may reduce sales of our products and reduce our market share

The markets for semiconductors in general, and for mixed-signal ICs in particular, are intensely competitive. We expect that the market for our products will continually evolve and will be subject to rapid technological change. In addition, as we target and supply products to numerous markets and applications, we face competition from a relatively large number of competitors. We compete with Analog Devices, Atmel, Broadcom, Conexant, Cypress, Epson, Freescale, IDT, Lantiq, LSI, Maxim Integrated Products, Microchip, NXP Semiconductors, Renesas, Sony Semiconductor, ST-Ericsson, STMicroelectronics, Texas Instruments, Vectron International, Zarlink Semiconductor and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and start-up semiconductor design companies. As the markets for communications products grow, we also may face competition from traditional communications device companies. These companies may enter the mixed-signal semiconductor market by introducing their own ICs or by entering into strategic relationships with or acquiring other existing providers of semiconductor products. In addition, large companies may restructure their operations to create separate companies or may acquire new businesses that are focused on providing the types of products we produce or acquire our customers.

Our products must conform to industry standards and technology in order to be accepted by end users in our markets

Generally, our products comprise only a part of a device. All components of such devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in affecting industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or end users. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected which would harm our business.

Products for certain applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins.

Our pursuit of necessary technological advances may require substantial time and expense. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. If our ICs fail to achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our registration statement (Registration No. 333-94853) under the Securities Act of 1933, as amended, relating to our initial public offering of our common stock became effective on March 23, 2000.

The following table summarizes repurchases of our common stock during the three months ended October 1, 2011 (in thousands, except per share amounts):

Period		Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 3, 2011	July 30, 2011	430	$	37.24	430	$	70,002
July 31, 2011	August 27, 2011	2,114	$	33.12	2,114	$	
August 28, 2011	October 1, 2011		$			$	
Total		2,544	$	33.82	2,544		

In July 2010, our Board of Directors authorized a program to repurchase up to $150 million of our common stock through 2011. The program was completed in August 2011.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	
2.1*	Agreement and Plan of Merger, dated January 22, 2011, by and among Silicon Laboratories Inc., Sophia Merger Sub, Inc., Spectra Linear, Inc. and Shareholder Representative Services LLC (filed as Exhibit 2.1 to the Form 8-K filed January 26, 2011).
3.1*	Form of Fourth Amended and Restated Certificate of Incorporation of Silicon Laboratories Inc. (filed as Exhibit 3.1 to the Registrant s Registration Statement on Form S-1 (Securities and Exchange Commission File No. 333-94853) (the IPO Registration Statement)).
3.2*	Second Amended and Restated Bylaws of Silicon Laboratories Inc (filed as Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended January 3, 2004).
4.1*	Specimen certificate for shares of common stock (filed as Exhibit 4.1 to the IPO Registration Statement).

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Exhibit Number	
31.1	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

* Incorporated herein by reference to the indicated filing.

** The information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. The information contained therein shall not be incorporated by reference into any filing with the U.S. Securities and Exchange Commission made by Silicon Laboratories, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SILICON LABORATORIES INC.

October 31, 2011 Date	/s/ Necip Sayiner Necip Sayiner *President and* *Chief Executive Officer* *(Principal Executive Officer)*
October 31, 2011 Date	/s/ Paul V. Walsh, Jr. Paul V. Walsh, Jr. *Chief Financial Officer* *(Principal Financial Officer)*