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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

(Mark  
One)

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

For the fiscal year ended December 29, 2012

or

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

For the transition period from            to

Commission file number: 000-29823

### SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**74-2793174**  
(I.R.S. Employer  
Identification No.)

**400 West Cesar Chavez, Austin,  
Texas**  
(Address of principal executive offices)

**78701**  
(Zip Code)

**(512) 416-8500**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.0001 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes   ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes   ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes   ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes   ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ Yes   ☒ No

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2012) was \$1,509,894,751 (assuming, for this purpose,

that only directors and officers are deemed affiliates).

There were 41,971,094 shares of the registrant's common stock issued and outstanding as of January 22, 2013.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the registrant's 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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**Cautionary Statement**

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-K (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.

## Part I

### Item 1. Business

#### General

Silicon Laboratories Inc. designs and develops 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 products addressing a variety of markets, including communications, consumer, industrial and automotive.

Our world-class, mixed-signal ICs leverage standard complementary metal oxide semiconductor (CMOS), a low cost, widely available process technology. This enables smaller, more cost effective solutions. Our expertise in analog-intensive, mixed-signal IC design in CMOS allows us to develop new and innovative products that are highly integrated, simplifying our customers' designs and improving their time-to-market.

#### Industry Background

The pervasiveness of connectivity and the explosion in mobile computing is driving semiconductor consumption. Intelligence is being added to electronic systems to enable remote monitoring, power efficiency and an improved user experience. This in turn is increasing the demand for bandwidth, requiring more infrastructure to support higher performance networks. The nearly ubiquitous availability of Internet access, the increasing intelligence of electronic devices and mobility are enabling what is called the Internet of Things, a term that describes the exponential increase in IP-enabled devices connected to the Internet.

These trends are requiring more and more interaction between the analog world we live in and the digital world of computing, and therefore require analog-intensive, mixed-signal circuits. Traditional mixed-signal designs relied upon solutions built with numerous, complex discrete analog and digital components. While these traditional designs provide the required functionality, they are often inefficient and inadequate for use in markets where size, cost, power consumption and performance are increasingly important product differentiators. In order to improve their competitive position, electronics manufacturers need to reduce the cost and complexity of their systems and enable new features or functionality to differentiate themselves from their competitors.

Simultaneously, these manufacturers face accelerating time-to-market demands and must be able to rapidly adapt to evolving industry standards and new technologies. Because analog-intensive, mixed-signal IC design expertise is difficult to find, these manufacturers increasingly are turning to third parties, like us, to provide advanced mixed-signal solutions. Mixed-signal design requires specific expertise and relies on creative, experienced engineers to deliver solutions that optimize speed, power and performance, despite the noisy digital environment, and within the constraints of standard manufacturing processes. The development of this design expertise typically requires years of practical analog design experience under the guidance of a senior engineer, and engineers with the required level of skill and expertise are in short supply.

Many IC providers lack sufficient analog expertise to develop compelling mixed-signal ICs. As a result, manufacturers of electronic devices value IC providers that can supply them with mixed-signal solutions with greater functionality, smaller size and lower power requirements at a reduced cost and shorter time-to-market.

## Products

We provide analog-intensive, mixed-signal solutions for use in a variety of electronic products in a broad range of applications including portable devices, AM/FM radios and other consumer electronics, networking equipment, test and measurement equipment, industrial monitoring and control, and customer premises equipment. Our products integrate complex mixed-signal functions that are frequently performed by numerous discrete components in competing products into a single chip or chipset. By doing so, we are able to create products that, when compared to many competing products:

- Require less board space;
- Reduce the use of external components lowering the system cost and simplifying design;
- Offer superior performance improving our customers' end products;
- Provide increased reliability and manufacturability, improving customer yields; and/or
- Reduce system power requirements enabling smaller form factors and/or longer battery life.

We group our products into the following categories:

- Broad-based products, which include our microcontrollers, timing products (clocks and oscillators), power and isolation devices, and touch controllers;
- Broadcast products, which include our broadcast audio and video products;
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) 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.

The following table summarizes the diverse product areas and applications for the various ICs that we have introduced to customers:

<u>Product Areas and Description</u>	<u>Applications</u>
<b><i>Broad-based Products</i></b>	
<b><i>Microcontrollers</i></b>	
We offer a family of products ideal for embedded systems that include, 8-bit mixed-signal microcontrollers, 32-bit wireless MCUs acquired in 2012, ultra low power 32-bit MCUs introduced in 2012 as well as peripheral devices such as our EZRadio® family of fully integrated, low power transceivers. These products generally integrate intelligent data capture, high performance processing, and communication interfaces in a single system on a chip. This family of products addresses a variety of end-markets, including the automotive, communications, consumer, industrial, medical and power management markets.	<ul style="list-style-type: none"><li>• Industrial automation and control</li><li>• Home automation</li><li>• Automotive sensors and controls</li><li>• Medical instrumentation</li><li>• Electronic test and measurement equipment</li><li>• Consumer electronics</li><li>• Computer peripherals</li><li>• White goods</li><li>• Smart metering</li><li>• Remote controls</li></ul>

<b>Product Areas and Description</b>	<b>Applications</b>
<p><i>Timing Devices</i></p> <p>Leveraging our patented DSPLL® and MultiSynth technologies to offer frequency agile, extremely low jitter clock and oscillator products, our devices replace traditional solutions implemented using expensive, bulky modules, numerous crystal sources, complicated discrete circuitry requiring numerous components, or hybrid IC/discrete solutions that offer limited functionality.</p>	<ul style="list-style-type: none"> <li>• Networking equipment</li> <li>• Telecommunications</li> <li>• Wireless base stations</li> <li>• Test and measurement equipment</li> <li>• HDTV video</li> <li>• High-speed data acquisition</li> <li>• SONET/SDH line cards</li> <li>• Storage area networks</li> </ul>
<p><i>Digital Isolators and Related Products</i></p> <p>Our digital isolators and related products leverage patented isolation techniques to enable, for example, multiple channels of isolation on a single device, simplifying design and reducing system cost. These products are still in the early stages of customer adoption.</p>	<ul style="list-style-type: none"> <li>• Switch mode power supplies</li> <li>• Isolated analog data acquisition</li> <li>• Industrial networking</li> <li>• Motor control</li> <li>• Isolated DC-DC supplies</li> <li>• Electronic ballasts for lighting</li> </ul>
<p><i>Sensors</i></p> <p>Our sensor products include touch controllers, proximity sensors, ambient light sensors and RH/humidity sensors. These devices leverage our mixed-signal capability to provide high accuracy, quicker response time and lower power consumption than competing parts. These products are in the early stages of customer adoption.</p>	<ul style="list-style-type: none"> <li>• Smart home applications</li> <li>• Industrial controls</li> <li>• Toys and consumer electronics</li> <li>• Monitors and lavatory controls</li> </ul>
<p><b>Broadcast Products</b></p> <p><i>Broadcast Radio Receivers and Transmitters</i></p> <p>Our AM and FM receivers deliver the entire tuner from antenna input to audio output in a single chip. The broadcast audio products are based on an innovative digital architecture that enables significant improvements in performance, which translates to a better consumer experience, while reducing system cost and board space for our customers.</p>	<ul style="list-style-type: none"> <li>• Stand-alone AM/FM radios</li> <li>• Portable audio devices</li> <li>• MP3/digital media players</li> <li>• Navigation/GPS devices</li> <li>• Satellite radios</li> <li>• Home stereos</li> <li>• Automotive infotainment systems</li> </ul>

**Product Areas and Description**

*Video Tuners and Demodulators*

Our complete, globally-compliant hybrid TV tuners with analog TV demodulator in a single CMOS IC leverage our proven digital low-IF architecture and exceed the performance of traditional discrete TV tuners, enabling TV makers to deliver improved picture quality and better reception for both analog and digital broadcasts. Our small, low power and high performance digital video demodulators support DVB-T/T2, DVB-S/S2, and/or DVB-C in a single chip and are ideal for equipment receiving digital terrestrial, satellite and/or cable services.

**Access Products**

*ProSLIC® Subscriber Line Interface Circuits for VoIP*

Our ProSLIC provides the analog subscriber line interface on the source end of the telephone which generates dial tone, busy tone, caller ID and ring signal. Our ProSLIC product family has offerings for short-haul applications suitable for the customer premises as well as long-haul applications suitable for the traditional telephone company central office.

*ISOModem® Embedded Modems*

The ISOModem embedded modems leverage innovative silicon direct access arrangement (DAA) technology and a digital signal processor to deliver a globally compliant, very small analog modem for embedded applications.

*Power over Ethernet*

Our Power over Ethernet (PoE) power source equipment and powered device ICs offer highly differentiated solutions with a reduced total bill of materials (BOM) and improved performance and reliability. Our solutions also offer an integration level that enables functionality not available with competing solutions.

**Applications**

- Integrated digital televisions (iDTV)
- Free-to-Air (FtA) or pay-TV set-top box receivers
- PC-TV applications
- DVD/HDD personal video recorders
- Voice over broadband modems and terminal adapters
- VoIP residential gateways
- Wireless local loop remote access systems
- PBXs
- Wired long loop and central office systems
- Set-top and digital cable boxes
- Fax machines and multi-function printers
- Industrial monitoring
- Postage meters
- Security systems
- Remote medical monitoring
- Point of sale (POS) terminals
- Networking routers and switches
- Wireless access points (WAP)
- VoIP phones
- Radio frequency identification (RFID) tag readers
- POS terminals
- Security cameras

During fiscal 2012, 2011 and 2010, sales of our mixed-signal products accounted for substantially all of our revenue.

## Customers, Sales and Marketing

We market our products through our direct sales force and through a network of independent sales representatives and distributors. Direct and distributor customers buy on an individual purchase order basis, rather than pursuant to long-term agreements.

We consider our customer to be the end customer purchasing either directly from a distributor, a contract manufacturer or us. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer.

Two of our distributors, Edom Technology and Avnet, represented 22% and 11% of our revenues during fiscal 2012, respectively. No other distributor accounted for 10% or more of revenues for fiscal 2012.

During fiscal 2012, our ten largest end customers accounted for 43% of our revenues. We had one customer, Samsung, whose purchases across a variety of product areas represented 19% of our revenues during this period. Our major customers include Cisco, Huawei, LG Electronics, Pace, Panasonic, Sagem, Samsung, Technicolor, Varian Medical Systems and ZTE.

We maintain numerous sales offices in North America, Europe and Asia. Revenue is attributed to a geographic area based on the shipped-to location. The percentage of our revenues derived from outside of the United States was 88% in fiscal 2012. For further information regarding our revenues and long-lived assets by geographic area, see Note 18, *Segment Information*, to the Consolidated Financial Statements.

Our direct sales force is comprised of a number of sales professionals who possess varied levels of responsibility and experience, including directors, country managers, regional sales managers, district sales managers, strategic account managers, field sales engineers and sales representatives. We also utilize independent sales representatives and distributors to generate sales of our products. We have relationships with many independent sales representatives and distributors worldwide whom we have selected based on their understanding of the mixed-signal IC marketplace and their ability to provide effective field sales applications support for our products.

Our marketing efforts are targeted at both identified industry leaders and emerging market participants. Direct marketing activities are supplemented by a focused marketing communications effort that seeks to raise awareness of our company and products. Our public relations efforts are focused on leading trade and business publications. Our external website is used to deliver corporate and product information. We also pursue targeted advertising in key trade publications and we have a cooperative marketing program that allows our distributors and representatives to promote our products to their local markets in conjunction with their own advertising activities. Finally, we maintain a presence at strategic trade shows and industry events. These activities, in combination with direct sales activities, help drive demand for our products.

Due to the complex and innovative nature of our ICs, we employ experienced applications engineers who work closely with customers to support the design-win process, and can significantly accelerate the customer's time to market. A design-win occurs when a customer has designed our ICs into its product architecture and ordered product from us. A considerable amount of effort to assist the customer in incorporating our ICs into its products is typically required prior to any sale. In many cases, our innovative ICs require significantly different implementations than existing approaches and, therefore, successful implementations may require extensive communication with potential customers. The amount of time required to achieve a design-win can vary substantially depending on a customer's development cycle, which can be relatively short (such as three months) or very long (such as two years) based on a wide variety of



customer factors. Not all design wins ultimately result in revenue. However, once a completed design architecture has been implemented and produced in high volumes, our customers are reluctant to significantly alter their designs due to this extensive design-win process. We believe this process, coupled with our intellectual property protection, promotes relatively longer product life cycles for our ICs and high barriers to entry for competitive products, even if such competing products are offered at lower prices. Our close collaboration with our customers provides us with knowledge of derivative product ideas or completely new product line offerings that may not otherwise arise in other new product discussions.

## **Research and Development**

Through our research and development efforts, we leverage experienced analog and mixed-signal engineering talent and expertise to create new ICs that integrate functions typically performed inefficiently by multiple discrete components. This integration generally results in lower costs, smaller die sizes, lower power demands and enhanced price/performance characteristics. We attempt to reuse successful techniques for integration in new applications where similar benefits can be realized. We believe that we have attracted many of the best engineers in our industry. We believe that reliable and precise analog and mixed-signal ICs can only be developed by teams of engineers who have significant analog experience and are familiar with the intricacies of designing these ICs for commercial volume production. The development of test methodologies is just one example of a critical activity requiring experience and know-how to enable the rapid release of a new product for commercial success. We have accumulated a vast set of trade secrets that allow us to pursue innovative approaches to mixed-signal problems that are difficult for competitors to duplicate. We highly value our engineering talent and strive to maintain a very high bar when bringing new recruits to the company.

Research and development expenses were \$138.0 million, \$136.0 million and \$123.8 million in fiscal 2012, 2011 and 2010, respectively.

## **Technology**

Our product development process facilitates the design of highly-innovative, analog-intensive, mixed-signal ICs. Our engineers' deep knowledge of existing and emerging standards and performance requirements helps us to assess the technical feasibility of a particular IC. We target areas where we can provide compelling product improvements. Once we have solved the primary challenges, our field application engineers continue to work closely with our customers' design teams to maintain and develop an understanding of our customers' needs, allowing us to formulate derivative products and refined features.

In providing mixed-signal ICs for our customers, we believe our key competitive advantages are:

- Analog and RF design expertise in CMOS;
- Digital signal processing, firmware and system design expertise;
- Microcontroller and system on a chip design expertise; and
- Our broad understanding of systems technology and trends.

To fully capitalize on these advantages, we have assembled a world-class development team with exceptional analog and mixed-signal design expertise led by accomplished senior engineers.

## **Analog and RF Design Expertise in CMOS**

We believe that our most significant core competency is world-class analog and RF design capability. Additionally, we strive to design substantially all of our ICs in standard CMOS processes. While it is significantly more difficult to design analog ICs in CMOS, CMOS provides multiple benefits versus existing alternatives, including significantly reduced cost, reduced technology risk and greater

worldwide foundry capacity. CMOS is the most commonly used process technology for manufacturing digital ICs and as a result is most likely to be used for the manufacturing of ICs with finer line geometries. These finer line geometries can enable smaller and faster ICs. By designing our ICs in CMOS, we enable our products to benefit from this trend towards finer line geometries, which allows us to integrate more digital functionality into our mixed-signal ICs.

Designing analog and mixed-signal ICs is significantly more complicated than designing stand alone digital ICs. While advanced software tools exist to help automate digital IC design, there are far fewer tools for advanced analog and mixed-signal IC design. In many cases, our analog circuit design efforts begin at the fundamental transistor level. We believe that we have a demonstrated ability to design the most difficult analog and RF circuits using standard CMOS technologies.

#### **Digital Signal Processing, Firmware and System Design Expertise**

We consider the partitioning of a circuit to be a proprietary and creative design technique. Deep systems knowledge allows us to use our digital signal processing (DSP) design expertise to maximize the price/performance characteristics of both the analog and digital functions and allow our ICs to work in an optimized manner to accomplish particular tasks. Generally, we attempt to move analog functions into the digital domain as quickly as possible, creating system efficiencies without compromising performance. These patented approaches require our advanced DSP and systems expertise. We then leverage our firmware know-how to change the 'personality' of our devices, optimizing features and functions needed by various markets we serve. For example, our broadcast audio products use a proven digital low-IF receiver and transmitter architecture to deliver superior RF performance and interference rejection compared to traditional, analog-only approaches. Digital signal processing is utilized to optimize sound quality under varying signal conditions, enabling a better consumer experience. Firmware has enabled us to rapidly expand the portfolio to address multiple markets without substantial silicon changes, including shortwave, longwave, analog tuned, digital tuned and even high performance HD-capable automotive radios.

#### **Microcontroller and System on a Chip Design Expertise**

We have the talent and circuit integration methodologies required to combine precision analog, high-speed digital, flash memory and in-system programmability into a single, monolithic CMOS integrated circuit. Our microcontroller products are designed to capture an external analog signal, convert it to a digital signal, compute digital functions on the stream of data and then communicate the results through a standard digital interface. The ability to develop standard products with the broadest possible customer application base while being cost efficient with the silicon area of the monolithic CMOS integrated circuit requires a keen sense of customer value and engineering capabilities. Additionally, to manage the wide variety of signals on a monolithic piece of silicon including electrical noise, harmonics and other electronic distortions requires a fundamental knowledge of device physics and accumulated design expertise.

#### **Understanding of Systems Technology and Trends**

Our focused expertise in mixed-signal ICs is the result of the breadth of engineering talent we have assembled with experience working in analog-intensive CMOS design for a wide variety of applications. This expertise, which we consider a competitive advantage, is the foundation of our in-depth understanding of the technology and trends that impact electronic systems and markets. Our expertise includes:

- Isolation, which is critical for existing and emerging telecom networks;
- Frequency synthesis, which is core technology for wireless and clocking applications;

- Integration, which enables the elimination of discrete components in a system; and
- Signal processing and precision analog, which forms the heart of consumer, industrial, medical and automotive electronics applications.

Our understanding of the role of analog/digital interfaces within electronic systems, standards evolution, and end market drivers enables us to identify product development opportunities and capitalize on market trends.

### **Manufacturing**

As a fabless semiconductor company, we conduct IC design and development in our facilities and electronically transfer our proprietary IC designs to third-party semiconductor fabricators who process silicon wafers to produce the ICs that we design. Our IC designs typically use industry-standard CMOS manufacturing process technology to achieve a level of performance normally associated with more expensive special-purpose IC fabrication technology. We believe the use of CMOS technology facilitates the rapid production of our ICs within a lower cost framework. Our IC production employs submicron process geometries which are readily available from leading foundry suppliers worldwide, thus increasing the likelihood that manufacturing capacity will be available throughout our products' life cycles. We currently partner principally with Taiwan Semiconductor Manufacturing Co. (TSMC) or its affiliates to manufacture our semiconductor wafers. We believe that our fabless manufacturing model significantly reduces our capital requirements and allows us to focus our resources on design, development and marketing of our ICs.

Once the silicon wafers have been produced, they are shipped directly to our third-party assembly subcontractors. The assembled ICs are then moved to the final testing stage. This operation can be performed by the same contractor that assembled the IC, other third-party test subcontractors or within our internal facilities prior to shipping to our customers. During fiscal 2012, most of our units shipped were tested by offshore third-party test subcontractors. We expect that our utilization of offshore third-party test subcontractors will remain substantial during fiscal 2013.

### **Backlog**

As of December 29, 2012, our backlog was approximately \$105.8 million, compared to approximately \$83.3 million as of December 31, 2011. We include in backlog accepted product purchase orders from customers and worldwide distributor stocking orders. We only include orders with an expected shipping date from us within six months. Product orders in our backlog are subject to changes in delivery schedules or cancellation at the option of the purchaser typically without penalty. Our backlog may fluctuate significantly depending upon customer order patterns which may, in turn, vary considerably based on rapidly changing business circumstances. Shipments to distributors are not recognized as revenue until the products are sold by the distributors. Additionally, our arrangements with distributors typically provide for price protection and stock rotation activities. Accordingly, we do not believe that our backlog at any time is necessarily representative of actual sales for any succeeding period.

## Competition

The markets for semiconductors generally, and for analog and mixed-signal ICs in particular, are intensely competitive. We anticipate that the market for our products will continually evolve and will be subject to rapid technological change. We believe the principal competitive factors in our industry are:

- Product size;
- Level of integration;
- Product capabilities;
- Reliability;
- Price;
- Performance;
- Power requirement;
- Customer support;
- Reputation;
- Ability to rapidly introduce new products to market; and
- Intellectual property.

We believe that we are competitive with respect to these factors, particularly because our ICs typically are smaller in size, are highly integrated, achieve high performance specifications at lower price points than competitive products and are manufactured in standard CMOS which generally enables us to supply them on a relatively rapid basis to customers to meet their product introduction schedules. However, disadvantages we face include our relatively short operating history in certain of our markets and the need for customers to redesign their products and modify their software to implement our ICs in their products.

Due to our diversified product portfolio and the numerous markets and applications we serve, we target a relatively large number of competitors. We compete with Analog Devices, Atmel, Conexant, Cypress, Epson, Freescale, IDT, Lantiq, Maxim Integrated Products, MaxLinear, Microchip, Microsemi, NXP Semiconductors, Renesas, Sony Semiconductor, STMicroelectronics, Texas Instruments, Vectron International 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. Our competitors may also offer bundled solutions offering a more complete product, which may negatively impact our competitive position despite the technical merits or advantages of our products. In addition, our customers could develop products or technologies internally that would replace their need for our products and would become a source of competition. We could also face competition from module makers or other systems suppliers that may include mixed-signal components in their products that could eliminate the need for our ICs.

Many of our competitors and potential competitors have longer operating histories, greater name recognition, access to larger customer bases, complementary product offerings, and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than us. Current and potential competitors have established or may establish financial and strategic relationships between themselves or with our existing or potential customers, resellers or other third parties. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share.

## Intellectual Property

Our future success depends in part upon our proprietary technology. We seek to protect our technology through a combination of patents, copyrights, trade secrets, trademarks and confidentiality procedures. As of December 29, 2012, we had approximately 1,280 issued or pending United States patents in the IC field. We also frequently file for patent protection in a variety of international jurisdictions with respect to the proprietary technology covered by our U.S. patents and patent applications. There can be no assurance that patents will ever be issued with respect to these applications. Furthermore, it is possible that any patents held by us may be invalidated, circumvented, challenged or licensed to others. In addition, there can be no assurance that such patents will provide us with competitive advantages or adequately safeguard our proprietary rights. While we continue to

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file new patent applications with respect to our recent developments, existing patents are granted for prescribed time periods and will expire at various times in the future.

We claim copyright protection for proprietary documentation for our products. We have filed for registration, or are in the process of filing for registration, the visual images of certain ICs with the U.S. Copyright Office. We have registered the "Silicon Labs" logo and a variety of other product and product family names as trademarks in the United States and selected foreign jurisdictions. All other trademarks, service marks or trade names appearing in this report are the property of their respective owners. We also attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through other customary security measures. We intend to protect our rights vigorously, but there can be no assurance that our efforts will be successful. In addition, the laws of other countries in which our products are sold may not protect our products and intellectual property rights to the same extent as the laws of the United States.

While our ability to effectively compete depends in large part on our ability to protect our intellectual property, we believe that our technical expertise and ability to introduce new products in a timely manner will be an important factor in maintaining our competitive position.

Many participants in the semiconductor and electronics industries have a significant number of patents and have frequently demonstrated a readiness to commence litigation based on allegations of patent and other intellectual property infringement. From time to time, third parties may assert infringement claims against us. We may not prevail in any such litigation or may not be able to license any valid and infringed patents from third parties on commercially reasonable terms, if at all. Litigation, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time. Any such litigation could materially adversely affect us.

Our licenses include industry standard licenses with our vendors, such as wafer fabrication tool libraries, third-party core libraries, computer-aided design applications and business software applications.

### **Employees**

As of December 29, 2012, we employed 997 people. Our success depends on the continued service of our key technical and senior management personnel and on our ability to continue to attract, retain and motivate highly skilled analog and mixed-signal engineers. The competition for such personnel is intense. We have never had a work stoppage and none of our U.S. employees are represented by a labor organization. We consider our employee relations to be good.

### **Environmental Regulation**

Federal, state and local regulations impose various environmental controls on the storage, use, discharge and disposal of certain chemicals and gases used in the semiconductor industry. Our compliance with these laws and regulations has not had a material impact on our financial position or results of operations.

### **Available Information**

Our website address is [www.silabs.com](http://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 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 Annual Report on Form 10-K.

## 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;
- 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.

The markets for consumer electronics, for example, 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 develop or acquire 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.

***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 fiscal 2012 was \$138.0 million, or 24.5% 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 fiscal 2012, our ten largest customers accounted for 43% 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.

***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.

***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;
- Risks associated with the transfer of licenses of intellectual property;
- Increased operating costs due to acquired overhead;
- Tax issues associated with acquisitions;

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- 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 outside of the United States was 88% during fiscal 2012. 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;
- 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. Similarly, a decrease in the value of the U.S. dollar could reduce our buying power with respect to international suppliers.

***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.

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 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;
- 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;
- 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.

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***

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.

***Our debt could adversely affect our operations and financial condition***

We believe we have the ability to service our debt under our credit facilities, but our ability to make the required payments thereunder when due depends upon our future performance, which will be subject to general economic conditions, industry cycles and other factors affecting our operations, including risk factors described under this Item 1A, many of which are beyond our control. Our credit facilities also contain covenants, including financial covenants. If we breach any of the covenants under our credit facilities and do not obtain appropriate waivers, then, subject to any applicable cure periods, our outstanding indebtedness thereunder could be declared immediately due and payable.

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

We believe that our existing cash, cash equivalents, investments and credit under our credit facilities will be sufficient to meet our working capital needs, capital expenditures, investment requirements and commitments for at least the next 12 months. However, our ability to borrow further under the credit facilities is dependent upon our ability to satisfy various conditions, covenants and representations. 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.



***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.

**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.

***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, Conexant, Cypress, Epson, Freescale, IDT, Lantiq, Maxim Integrated Products, MaxLinear, Microchip, Microsemi, NXP Semiconductors, Renesas, Sony Semiconductor, STMicroelectronics, Texas Instruments, Vectron International 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.

***We may be subject to information technology failures that could damage our reputation, business operations and financial condition***

We rely on information technology for the effective operation of our business. Our systems are subject to damage or interruption from a number of potential sources, including natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, cyber attacks, sabotage, vandalism, or similar events or disruptions. Our security measures may not detect or prevent such security breaches. Any such compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, result in the unauthorized release of customer, supplier or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation. In addition, our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business, which could negatively affect our business and operating results.

Third parties with which we conduct business, such as foundries, assembly and test contractors, and distributors, have access to certain portions of our sensitive data. In the event that these third parties do not properly safeguard our data that they hold, security breaches could result and negatively impact our business, operations and financial results.

***Customer demands and new regulations related to conflict-free minerals may adversely affect us***

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes new disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could affect the pricing, sourcing and availability of minerals used in the manufacture of semiconductor devices (including our products). There will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters, housing engineering, sales and marketing, administration and test operations, is located in Austin, Texas. Our headquarters facilities consist of two buildings, which we purchased in 2012, that are located on land which we have leased through 2099. The buildings contain approximately 441,000 square feet of floor space, of which approximately 139,000 square feet were leased to other tenants. In addition to these properties, we lease smaller facilities in various locations in the United States, China, France, Germany, Hungary, India, Ireland, Italy, Japan, South Korea, Singapore, Taiwan and the United Kingdom for engineering, sales and marketing, administrative and manufacturing support activities. We believe that these facilities are suitable and adequate to meet our current operating needs.

**Item 3. Legal Proceedings**

*Patent Litigation*

On May 13, 2012, MaxLinear, Inc., a Delaware corporation, filed a lawsuit against us in the United States District Court in the Southern District of California, San Diego Division, seeking a declaratory judgment that MaxLinear products do not infringe 19 Silicon Laboratories' patents and that such patents are invalid. We responded and filed claims accusing MaxLinear of infringing 6 Silicon Laboratories' patents, including 5 of our named 19 patents and an additional patent. On December 12, 2012, the Court granted a request by us to add additional allegations of patent infringement to the case, such that we are presently accusing MaxLinear of infringing 9 patents in this litigation. We have asked the Court for a permanent injunction stopping the sale of all allegedly infringing MaxLinear products.

On July 30, 2012, we further filed a complaint for declaratory judgment against MaxLinear in United States District Court for the Western District of Texas, Austin Division. We are seeking an order that MaxLinear's United States Patent Nos. 7,362,178, 7,778,613 and 8,198,940 are invalid, and that our products do not infringe such patents.

On July 17, 2012, we additionally filed a lawsuit against MaxLinear in the United States District Court in the Southern District of California, San Diego Division, alleging infringement of an additional Silicon Laboratories' patent, U.S. Patent 7,035,607 related to RF design. On August 6, 2012, MaxLinear counterclaimed alleging infringement of the three patents in the Texas litigation by a variety of our RF and mixed signal products.

At this time, we cannot predict the outcome of these matters or the resulting financial impact to us, if any.

*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 statements.

**Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information and Holders

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. Our common stock is quoted on the NASDAQ National Market (NASDAQ) under the symbol "SLAB". The table below shows the high and low per-share sales prices of our common stock for the periods indicated, as reported by NASDAQ. As of January 22, 2013, there were 111 holders of record of our common stock.

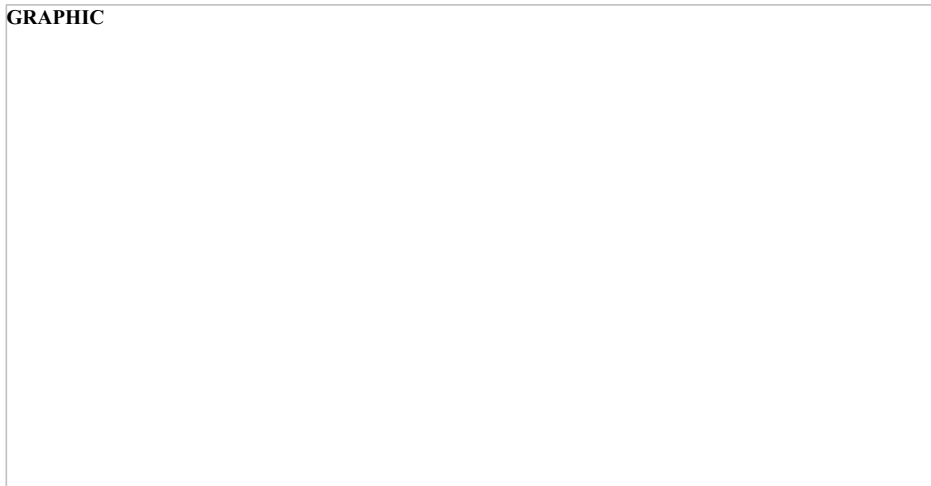
	High	Low
Fiscal Year 2011		
First Quarter	\$ 50.27	\$ 41.48
Second Quarter	46.28	37.56
Third Quarter	42.88	30.36
Fourth Quarter	45.10	31.92
Fiscal Year 2012		
First Quarter	\$ 48.50	\$ 41.07
Second Quarter	43.42	32.00
Third Quarter	40.35	34.55
Fourth Quarter	42.98	35.00

#### Dividend Policy

We have never declared or paid any cash dividends on our common stock and we do not intend to pay cash dividends in the foreseeable future. We currently expect to retain any future earnings to fund the operation and expansion of our business.

**Stock Performance Graph**

The graph depicted below shows a comparison of cumulative total stockholder returns for an investment in Silicon Laboratories Inc. common stock, the NASDAQ Composite Index, the NASDAQ Electronic Components Index and the PHLX Semiconductor Index.

**GRAPHIC**

Company / Index	12/29/07	01/03/09	01/02/10	01/01/11	12/31/11	12/29/12
Silicon Laboratories Inc.	\$ 100.00	\$ 67.85	\$ 128.43	\$ 122.17	\$ 115.26	\$ 110.14
NASDAQ Composite	\$ 100.00	\$ 59.10	\$ 85.37	\$ 100.36	\$ 99.20	\$ 111.43
NASDAQ Electronic Components	\$ 100.00	\$ 51.09	\$ 83.22	\$ 94.75	\$ 85.28	\$ 84.18
PHLX Semiconductor Index	\$ 100.00	\$ 55.67	\$ 90.11	\$ 101.14	\$ 99.73	\$ 118.70

- (1) The graph assumes that \$100 was invested in our common stock and in each index at the market close on December 29, 2007, and that all dividends were reinvested. No cash dividends have been declared on our common stock.
- (2) Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.
- (3) With respect to the industry index, we have changed from the NASDAQ Electronics Components Index to the PHLX Semiconductor Index because we believe it is more representative of our industry.

## Issuer Purchases of Equity Securities

The following table summarizes repurchases of our common stock during the three months ended December 29, 2012 (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
September 30, 2012 - October 27, 2012	245	\$ 36.14	245	\$ 38,016
October 28, 2012 - November 24, 2012	—	\$ —	—	\$ 38,016
November 25, 2012 - December 29, 2012	—	\$ —	—	\$ 38,016
Total	245	\$ 36.14	245	

In April 2012, our Board of Directors authorized a program to repurchase up to \$100 million of our common stock through January 2013. The program allows for repurchases to be made in the open market or in private transactions, including structured or accelerated transactions, subject to applicable legal requirements and market conditions.

## Item 6. Selected Financial Data

Please read this selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our Consolidated Financial Statements and the notes to those statements included in this Form 10-K.

	Fiscal Year				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Consolidated Statements of Income Data					
Revenues	\$ 563,294	\$ 491,625	\$ 493,341	\$ 441,020	\$ 415,630
Operating income	\$ 85,675	\$ 50,074	\$ 86,671	\$ 66,511	\$ 43,656(3)
Net income	\$ 63,548	\$ 35,472	\$ 73,242	\$ 73,092(2)	\$ 32,935(3)
Earnings per share:					
Basic	\$ 1.51	\$ 0.82	\$ 1.63	\$ 1.62	\$ 0.68
Diluted	\$ 1.47	\$ 0.79	\$ 1.57	\$ 1.57	\$ 0.67
Consolidated Balance Sheet Data					
Cash, cash equivalents and investments (1)	\$ 293,360	\$ 324,967	\$ 383,362	\$ 434,899	\$ 325,360
Working capital	361,304	370,211	414,073	435,359	289,716
Total assets	871,966	705,991	727,658	742,838	624,245
Long-term obligations	115,615	24,214	22,372	24,403	48,789
Total stockholders' equity	649,973	598,939	625,430	629,796	502,460

- (1) Reflects repurchases of \$62 million, \$110 million, \$140 million, \$20 million and \$280 million of our common stock in fiscal 2012, 2011, 2010, 2009 and 2008, respectively.
- (2) Includes a benefit related to the resolution of prior year uncertain tax benefits.
- (3) Includes a charge for in-process research and development costs in connection with our acquisition of Integration Associates.

## **Item 7. 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 Consolidated Financial Statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements. Please see the "Cautionary Statement" and "Risk Factors" above 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 2012, 2011 and 2010 were 52-week years and ended on December 29, 2012, December 31, 2011 and January 1, 2011, respectively.

### **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 products addressing a variety of markets, including communications, consumer, industrial and automotive. Our major customers include Cisco, Huawei, LG Electronics, Pace, Panasonic, Sagem, Samsung, Technicolor, Varian Medical Systems and ZTE.

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), power and isolation devices, and touch controllers;
- Broadcast products, which include our broadcast audio and video products;
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) 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.

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. On July 3, 2012, we acquired Ember Corporation, a privately held company. Ember's products integrate high-performance, low-power 2.4 GHz wireless ICs with reliable and scalable software into a flexible and robust networking platform. We believe that this strategic acquisition provides us with the technology and software expertise required to enable the low-power mesh sensor networks being deployed today in a wide range of residential, commercial and industrial applications. See Note 9, *Acquisitions*, for additional information.

In fiscal 2012, we introduced the Precision32™ 32-bit mixed-signal microcontroller family, based on a patented architecture that provides customers with flexibility, performance and low power. We also introduced a digital relative humidity (RH) and temperature "sensor-on-a-chip" solution, low-jitter clock buffers with high integration of clock tree functions, a crystal-less USB-to-I<sup>2</sup>S audio bridge



designed to support a wide range of codecs and digital-to-analog converters (DACs), a family of digital isolators that are drop-in replacements for optocouplers, high-performance 8-bit microcontrollers featuring an integrated temperature sensor with best-in-class accuracy, two next-generation EZRadio wireless ICs designed to simplify the addition of high-performance wireless connectivity to cost-sensitive embedded applications, advanced AM/FM receivers tuned for the high-end consumer and professional audio equipment market, a family of TV tuners offering both best-in-class RF performance and support for all worldwide TV standards, a multimedia demodulator that merges all digital video broadcast (DVB) standards into a single-chip solution, isolated analog-to-digital (ADC) converters designed specifically for the demands of mains line monitoring, a single-port PoE controller that brings "plug-and-play" simplicity to embedded power sourcing equipment (PSE) designs, high performance, low power sub-GHz transceivers designed to maximize range and battery life for wireless systems, ultra-small and low power customizable clock generators ideal for space-limited, cost-sensitive embedded and consumer electronics and the expansion of our clocking solutions to address the stringent specifications of the PCI Express (PCIe) Generation 1/2/3 standards. 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 fiscal 2012 and 2011, we had one customer, Samsung, whose purchases across a variety of product areas represented 19% and 13% of our revenues, respectively. We had no customers that accounted for more than 10% of our revenues during fiscal 2010. In addition to direct sales to customers, some of our end customers purchase products indirectly from us through distributors and contract manufacturers. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer. Two of our distributors, Edom Technology and Avnet, represented 22% and 11% of our revenues during fiscal 2012, respectively. Edom, Avnet and Macnica, represented 24%, 12% and 10% of our revenues during fiscal 2011, respectively. Edom and Avnet represented 28% and 14% of our revenues during fiscal 2010, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2012, 2011 or 2010.

The percentage of our revenues derived from outside of the United States was 88% in fiscal 2012, 86% in fiscal 2011 and 86% in fiscal 2010. 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, radios and mobile handsets, we expect that the demand for our products will be typically subject to some degree of seasonal demand. However, rapid changes in our markets and across our product areas make it difficult for us to accurately estimate the impact of seasonal factors on our business.

## Results of Operations

The following describes the line items set forth in our 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, 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, as well as new product masks, external consulting and services costs, equipment tooling, equipment depreciation, amortization of intangible assets, and an allocated portion of our occupancy costs. 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, as well as an allocated 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, including our Credit Facilities.

**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.

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

	Fiscal Year		
	2012	2011	2010
Revenues	100.0%	100.0%	100.0%
Cost of revenues	40.0	39.3	34.3
Gross margin	60.0	60.7	65.7
Operating expenses:			
Research and development	24.5	27.7	25.1
Selling, general and administrative	20.3	22.8	23.0
Operating expenses	44.8	50.5	48.1
Operating income	15.2	10.2	17.6
Other income (expense):			
Interest income	0.2	0.3	0.4
Interest expense	(0.2)	0.0	0.0
Other income (expense), net	0.1	0.1	(0.3)
Income before income taxes	15.3	10.6	17.7
Provision for income taxes	4.0	3.4	2.9
Net income	11.3%	7.2%	14.8%

### Comparison of Fiscal 2012 to Fiscal 2011

#### Revenues

(in millions)	Fiscal Year		Change	% Change
	2012	2011		
Revenues	\$ 563.3	\$ 491.6	\$ 71.7	14.6%

The growth in revenues in fiscal 2012 was due primarily to market share gains and the addition of product revenues from the acquisition of Ember in July 2012. Unit volumes of our products increased compared to fiscal 2011 by 18.0%. Average selling prices decreased compared to the same period by 3.0%. 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

(in millions)	Fiscal Year		Change	% Change
	2012	2011		
Gross margin	\$ 338.0	\$ 298.4	\$ 39.6	13.3%
Percent of revenue	60.0%	60.7%		

The increase in the dollar amount of gross margin in fiscal 2012 was primarily due to our increased sales, offset in part by an increase in acquisition-related charges. The decrease in gross margin as a percent of revenue was primarily due to changes in product mix.

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

(in millions)	Fiscal Year		Change	% Change
	2012	2011		
Research and development	\$ 138.0	\$ 136.0	\$ 2.0	1.5%
Percent of revenue	24.5%	27.7%		

The increase in research and development expense in fiscal 2012 was principally due to an increase of \$2.8 million for personnel-related expenses, including personnel costs associated with the acquisition of Ember. The decrease in research and development expense as a percent of revenues in fiscal 2012 is due to our increased revenues. We expect that research and development expense will increase modestly in absolute dollars in the first quarter of 2013.

Recent development projects include a digital RH and temperature "sensor-on-a-chip" solution, low-jitter clock buffers with high integration of clock tree functions, a crystal-less USB-to-I<sup>2</sup>S audio bridge designed to support a wide range of codecs and DACs, a family of digital isolators that are drop-in replacements for optocouplers, high-performance 8-bit microcontrollers featuring an integrated temperature sensor with best-in-class accuracy, two next-generation EZRadio wireless ICs designed to simplify the addition of high-performance wireless connectivity to cost-sensitive embedded applications, advanced AM/FM receivers tuned for the high-end consumer and professional audio equipment market, a family of TV tuners offering both best-in-class RF performance and support for all worldwide TV standards, a multimedia demodulator that merges all DVB standards into a single-chip solution, isolated ADC converters designed specifically for the demands of mains line monitoring, a single-port PoE controller that brings "plug-and-play" simplicity to embedded PSE designs, the Precision32 32-bit mixed-signal microcontroller family, high performance, low power sub-GHz transceivers designed to maximize range and battery life for wireless systems, ultra-small and low power customizable clock generators ideal for space-limited, cost-sensitive embedded and consumer electronics, and the expansion of our clocking solutions to address the stringent specifications of the PCIe Generation 1/2/3 standards.

## Selling, General and Administrative

(in millions)	Fiscal Year		Change	% Change
	2012	2011		
Selling, general and administrative	\$ 114.4	\$ 112.4	\$ 2.0	1.8%
Percent of revenue	20.3%	22.8%		

The increase in selling, general and administrative expense in fiscal 2012 was principally due to increases of (a) \$6.5 million for personnel-related expenses, including severance related to a separation agreement between us and our former CEO, (b) \$1.5 million for legal fees, primarily related to litigation and acquisition-related costs, and (c) \$0.8 million for product marketing costs. The increase in fiscal 2012 was offset in part by a net gain of \$8.5 million from the purchase of our headquarters in fiscal 2012. The decrease in selling, general and administrative expense as a percent of revenues in fiscal 2012 is due to our increased revenues. We expect that selling, general and administrative expense will remain relatively stable in absolute dollars in the first quarter of 2013.

**Interest Income**

Interest income in fiscal 2012 was \$1.3 million compared to \$1.9 million in fiscal 2011.

**Interest Expense**

Interest expense in fiscal 2012 was \$1.1 million compared to \$37 thousand in fiscal 2011. The increase in fiscal 2012 is principally due to interest on our Term Loan Facility under our Credit Agreement.

**Other Income (Expense), Net**

Other income (expense), net in fiscal 2012 was \$0.5 million compared to \$0.4 million in fiscal 2011.

**Provision for Income Taxes**

(in millions)	Fiscal Year		Change
	2012	2011	
Provision for income taxes	\$ 22.8	\$ 16.9	\$ 5.9
Effective tax rate	26.4%	32.2%	

The effective tax rate for fiscal 2012 decreased from the prior period, primarily due to the release of prior year unrecognized tax benefits that were determined to be effectively settled during the current period, along with one-time nondeductible costs associated with the acquisition of Spectra Linear in fiscal 2011. The impact of these items was partially offset by the non-renewal of the federal research and development tax credit in the current period.

The American Taxpayer Relief Act of 2012 (the "Act") was enacted on January 2, 2013. The Act retroactively reinstates the federal research and development credit from January 1, 2012, through December 31, 2013. The effect of the change in the tax law related to fiscal 2012 is estimated to be between \$3.5 million and \$4.0 million, which will be recognized as a benefit to income tax expense in the first quarter of fiscal 2013, the quarter in which the law was enacted.

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.

**Comparison of Fiscal 2011 to Fiscal 2010****Revenues**

(in millions)	Fiscal Year		Change	% Change
	2011	2010		
Revenues	\$ 491.6	\$ 493.3	\$ (1.7)	(0.3)%

Unit volumes of our products decreased compared to fiscal 2010 by 1.0%. Average selling prices increased during the same period by 1.2%.

## Gross Margin

(in millions)	Fiscal Year		Change	% Change
	2011	2010		
Gross margin	\$ 298.4	\$ 324.2	\$ (25.8)	(8.0)%
Percent of revenue	60.7%	65.7%		

The decrease in gross margin in fiscal 2011 was primarily due to changes in product mix and charges related to the acquisition of Spectra Linear.

## Research and Development

(in millions)	Fiscal Year		Change	% Change
	2011	2010		
Research and development	\$ 136.0	\$ 123.8	\$ 12.2	9.8%
Percent of revenue	27.7%	25.1%		

The increase in research and development expense in fiscal 2011 was primarily due to (a) an increase of \$8.6 million for personnel-related expenses, including \$1.6 million for one-time personnel costs associated with the acquisition of Spectra Linear, (b) an increase of \$2.3 million for amortization of intangible assets, and (c) \$1.0 million for the impairment of intangible assets.

## Selling, General and Administrative

(in millions)	Fiscal Year		Change	% Change
	2011	2010		
Selling, general and administrative	\$ 112.4	\$ 113.8	\$ (1.4)	(1.2)%
Percent of revenue	22.8%	23.0%		

The decrease in selling, general and administrative expense in fiscal 2011 was principally due to a) a decrease of \$2.0 million for legal fees, and (b) a decline of \$1.9 million in the fair value of acquisition-related contingent consideration. The decrease was offset in part by an increase of \$2.2 million for personnel-related expenses, including \$3.0 million for one-time personnel costs associated with the acquisition of Spectra Linear.

## Interest Income

Interest income in fiscal 2011 was \$1.9 million compared to \$2.3 million in fiscal 2010.

## Interest Expense

Interest expense in fiscal 2011 was \$37 thousand compared to \$77 thousand in fiscal 2010.

## Other Income (Expense), Net

Other income (expense), net in fiscal 2011 was \$0.4 million compared to \$(1.3) million in fiscal 2010. The change was primarily due to foreign currency remeasurement adjustments.

**Provision for Income Taxes**

(in millions)	Fiscal Year		Change
	2011	2010	
Provision for income taxes	\$ 16.9	\$ 14.4	\$ 2.5
Effective tax rate	32.2%	16.4%	

The effective tax rate for fiscal 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, a decrease in the foreign tax rate benefit, and a release of prior year unrecognized tax benefits in fiscal 2010 with none in fiscal 2011. These changes 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 first quarter of fiscal 2013 to be down sequentially four to eight percent. Furthermore, we expect our diluted earnings per share to be in the range of \$0.34 to \$0.40.

**Liquidity and Capital Resources**

Our principal sources of liquidity as of December 29, 2012 consisted of \$282.0 million in cash, cash equivalents and short-term investments, of which approximately \$119.4 million was held by our U.S. entities. The remaining balance was held by our foreign subsidiaries. Our cash equivalents and short-term investments consisted of corporate bonds, money market funds, municipal bonds, U.S. Treasury bills, variable-rate demand notes, U.S. government bonds, asset-backed securities and international government bonds.

Our long-term investments consisted 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 December 29, 2012, we held \$12.5 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2033 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 \$97.1 million during fiscal 2012, compared to net cash provided of \$88.7 million during fiscal 2011. Operating cash flows during fiscal 2012 reflect our net income of \$63.5 million, adjustments of \$56.5 million for depreciation, gains on the purchase of property and equipment, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of \$22.9 million due to changes in our operating assets and liabilities.

Accounts receivable increased to \$78.0 million at December 29, 2012 from \$55.4 million at December 31, 2011. The increase in accounts receivable resulted primarily from an increase in shipments during the last quarter of fiscal 2012 compared to the last quarter of fiscal 2011. Our average days sales outstanding (DSO) was 46 days at December 29, 2012 and 39 days at December 31, 2011.

Inventory increased to \$49.6 million at December 29, 2012 from \$34.8 million at December 31, 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 76 days at December 29, 2012 and 63 days at December 31, 2011.

Net cash used in investing activities was \$139.3 million during fiscal 2012, compared to net cash used of \$25.2 million during fiscal 2011. The increase in cash outflows was principally due to increases of \$93.4 million for purchases of property and equipment and \$44.6 million in net payments for the acquisition of businesses, offset by an increase of \$28.3 million from net proceeds from sales and maturities of marketable securities. On July 3, 2012, we acquired Ember, a privately held company, for approximately \$79.0 million, including contingent consideration with an estimated fair value of \$4.0 million at the date of acquisition. On September 28, 2012, we purchased our corporate headquarters facilities. See Note 9, *Acquisitions*, for additional information.

We anticipate capital expenditures of approximately \$14 to \$18 million for fiscal 2013. 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 provided by financing activities was \$52.7 million during fiscal 2012, compared to net cash used of \$107.2 million during fiscal 2011. The increase in cash inflows was principally due from net proceeds of \$98.3 million from the issuance of long-term debt and outflows declining \$48.0 million for repurchases of our common stock. In April 2012, our Board of Directors authorized a program to repurchase up to \$100 million of our common stock through January 2013.

#### *Debt*

On July 31, 2012, we entered into a \$230 million five-year Credit Agreement (the "Agreement"). The Agreement consists of a \$100 million Term Loan Facility and a \$130 million Revolving Credit Facility.

The Term Loan Facility provides for quarterly principal amortization (equal to 5% of the principal in each of the first two years and 10% of the principal in each of the next three years) with the remaining balance payable upon the maturity date. The Revolving Credit Facility includes a \$25 million letter of credit sublimit and a \$10 million swingline loan sublimit. We have an option to increase the size of the Revolving Credit Facility by up to an aggregate of \$50 million in additional commitments, subject to certain conditions. On September 27, 2012, we borrowed \$100 million under the Term Loan Facility. To date, we have not borrowed under the Revolving Credit Facility.

The Term Loan Facility and Revolving Credit Facility, other than swingline loans, will bear interest at LIBOR plus an applicable margin or, at our option, a base rate (defined as the highest of the Bank of America prime rate, the Federal Funds rate plus 0.50% and a daily rate equal to one-month LIBOR plus 1.00%) plus an applicable margin. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. The applicable margins for the LIBOR rate loans range from 1.50% to 2.50% and for base rate loans range from 0.50% to 1.50%, depending in each case, on the leverage ratio as defined in the Agreement. We also pay a commitment fee on the unused amount of the Revolving Credit Facility.



In connection with the closing of the Credit Agreement, we entered into a security and pledge agreement. Under the security and pledge agreement, we pledged equity securities of certain of our subsidiaries, subject to exceptions and limitations. The Credit Facilities contain various conditions, covenants and representations with which we must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that we must maintain a leverage ratio (funded debt/EBITDA) of no more than 2.5 to 1 and a minimum fixed charge coverage ratio (EBITDA/debt payments, income taxes and capital expenditures) of no less than 1.50 to 1. As of December 29, 2012, the Company was in compliance with all covenants of the Credit Facilities. See Note 11, *Debt*, to the Consolidated Financial Statements for additional information.

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, cash equivalents, investments and credit under our Credit Facilities 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.

## Contractual Obligations

The following table summarizes our contractual obligations as of December 29, 2012 (in thousands):

	Payments due by period						
	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt obligations (1)	\$ 100,000	\$ 5,000	\$ 7,500	\$ 10,000	\$ 10,000	\$ 67,500	\$ —
Interest on long-term debt obligations (2)	11,771	2,837	2,708	2,530	2,507	1,189	—
Operating lease obligations (3)	13,478	3,523	2,521	1,868	1,866	1,665	2,035
Purchase obligations (4)	36,001	35,992	9	—	—	—	—
Other long-term obligations (5)	2,255	—	1,991	—	—	—	264

- (1) Long-term debt obligations represent the principal due under our Term Loan Facility and include amounts classified as current portion of long-term debt.
- (2) Interest on our long-term debt obligations is based on LIBOR plus an applicable margin. We have entered into an interest rate swap agreement as a hedge against the LIBOR portion of such variable interest payments and effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate through the maturity date. As of December 29, 2012, the combined interest rate on the Term Loan Facility was 2.514%. The impact of the interest rate swap was factored into the calculation of the future interest payments on our long-term debt obligations.
- (3) Operating lease obligations include amounts for leased facilities.
- (4) Purchase obligations include contractual arrangements in the form of purchase orders with suppliers where there is a fixed non-cancelable payment schedule or minimum payments due with a reduced delivery schedule.
- (5) We are unable to make a reasonably reliable estimate as to when or if cash settlement with taxing authorities will occur for our unrecognized tax benefits. Therefore, our liability of \$4.4 million for unrecognized tax benefits is not included in the table above. See Note 17, *Income Taxes*, to the Consolidated Financial Statements for additional information.

## Off-Balance Sheet Arrangements

As of December 29, 2012, we had no significant off-balance sheet arrangements.

## 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 less selling costs. 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 Statements of Income. The fair value of our full-value stock awards (with the exception of market-based performance awards) equals the fair market value of our stock on the date of grant. The fair value of our market-based performance award grants is estimated at the date of grant using a Monte-Carlo simulation. 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 13, *Stock-Based Compensation*, to the 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 and 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.

*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 calculate income taxes in each of the jurisdictions in which we operate. This process involves calculating 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 record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we are required to estimate the amount of expected future taxable income. Judgment is inherent in this process and differences between the estimated and actual taxable income could result in a material impact on our Consolidated Financial Statements.

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.

#### **Recent Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on our financial statements.

In December 2011, the FASB issued FASB ASU No. 2011-11, *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information about these instruments. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU is not expected to have a material impact on our financial statements.

#### **Item 7A. 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 December 29, 2012 and December 31, 2011 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of December 29, 2012 and December 31, 2011 would decrease our annual interest income by approximately \$1.2 million and \$1.9 million, respectively. We believe that our investment policy, which defines the duration, concentration, and minimum credit quality of the allowable investments, meets our investment objectives.

##### *Interest Expense*

We are exposed to interest rate fluctuations in the normal course of our business, including through our Credit Facilities. The interest payments on the facility are calculated using a variable-rate

of interest. We have entered into an interest rate swap agreement with a notional value of \$100 million (equal to the full amount borrowed under the Term Loan Facility) and, effectively, converted the variable-rate interest payments on the Term Loan Facility to fixed-rate interest payments through July 2017.

*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 December 29, 2012, we held \$12.5 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.

**Item 8. Financial Statements and Supplementary Data**

The Financial Statements and supplementary data required by this item are included in Part IV, Item 15 of this Form 10-K and are presented beginning on page F-1.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 December 29, 2012 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 December 29, 2012 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we concluded that, as of December 29, 2012, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm, Ernst & Young LLP, issued an attestation report on our internal control over financial reporting. This report appears on page F-1.

**Item 9B. Other Information**

None.

**Part III**

Certain information required by Part III is omitted from this report because we intend to file a definitive Proxy Statement pursuant to Regulation 14A (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this report, and certain information to be included therein is incorporated herein by reference.

**Item 10. Directors, Executive Officers and Corporate Governance**

Set forth below is information regarding the executive officers and directors of Silicon Laboratories as of January 22, 2013.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Navdeep S. Sooch	50	Chairman of the Board
G. Tyson Tuttle	45	Chief Executive Officer, President and Director
Paul V. Walsh, Jr.	48	Chief Financial Officer and Senior Vice President
David P. Bresemann	47	Chief Product Officer and Senior Vice President
Kurt W. Hoff	55	Senior Vice President of Worldwide Sales
Jonathan D. Ivester	57	Senior Vice President of Worldwide Operations
David R. Welland	57	Vice President and Director
William G. Bock	62	Director
Harvey B. Cash	74	Director
R. Ted Enloe III	74	Director
Kristen M. Onken	63	Director
Laurence G. Walker	64	Director
William P. Wood	57	Director

Navdeep S. Sooch co-founded Silicon Laboratories in August 1996 and has served as Chairman of the Board since our inception. Mr. Sooch served as our Chief Executive Officer from our inception through the end of fiscal 2003 and served as interim Chief Executive Officer from April 2005 to September 2005. From March 1985 until founding Silicon Laboratories, Mr. Sooch held various positions at Crystal Semiconductor/Cirrus Logic, a designer and manufacturer of integrated circuits, including Vice President of Engineering, as well as Product Planning Manager of Strategic Marketing and Design Engineer. From May 1982 to March 1985, Mr. Sooch was a Design Engineer with AT&T Bell Labs. Since October 2011, Mr. Sooch has served as the CEO of Ketra, Inc., a private company in the field of solid state lighting. Mr. Sooch holds a B.S. in Electrical Engineering from the University of Michigan, Dearborn and an M.S. in Electrical Engineering from Stanford University. Mr. Sooch's prior experience as our Chief Executive Officer as well as a semiconductor designer provides him with extensive insight into our industry and our operations and qualifies him to serve as Chairman of our Board of Directors.

G. Tyson Tuttle has served as a director and as President and Chief Executive Officer of Silicon Laboratories since April 2012. Mr. Tuttle previously served Silicon Laboratories as Chief Operating Officer and Senior Vice President from May 2011 until April 2012, Chief Technical Officer from January 2010 to May 2011, and Vice President and General Manager of Broadcast products including the audio and video product families from May 2005 to December 2009. Mr. Tuttle joined Silicon Laboratories in 1997 as a senior design engineer. From 1999 to 2005, Mr. Tuttle served in a variety of product management, marketing and business leadership positions. Previously, Mr. Tuttle held senior design engineering positions at Crystal Semiconductor/Cirrus Logic and Broadcom Corporation where he focused on high-speed mixed-signal circuit design for hard disk drive read channel and Ethernet applications. Mr. Tuttle holds an M.S. in Electrical Engineering from UCLA and a B.S. in Electrical Engineering from Johns Hopkins University. Mr. Tuttle's experience and understanding of our business gained through his role as our President and Chief Executive Officer as well as his years of experience

as a semiconductor designer provide him with extensive insight into our operations and qualifies him to serve as a member of our Board of Directors.

Paul V. Walsh, Jr. has served as Chief Financial Officer of Silicon Laboratories since July 2011. Mr. Walsh served as Vice President of Finance and Chief Accounting Officer from November 2006 to July 2011. Mr. Walsh previously served as Corporate Controller from March 2005. From January 2009 through September 2010, Mr. Walsh served on the Board of Directors of Rio Holdings, Inc. (previously Grande Communications, Inc.), a provider of cable, Internet and phone services, where he also served as the Chairman of the Audit Committee and as a member of the Finance Committee. Prior to joining Silicon Laboratories, Mr. Walsh was Site Controller from February 2003 to January 2004 with PerkinElmer, a supplier to the health sciences and photonics markets. From 1992 to 2003, Mr. Walsh held various operational, finance and management roles at Analog Devices and Teradyne, in the Boston area. Mr. Walsh received his B.S. in Mechanical Engineering from the University of Maine, and an M.B.A. from Boston University.

David P. Bresemann has served as Chief Product Officer of Silicon Laboratories since November 2012. Mr. Bresemann was promoted to Senior Vice President in April 2012. Mr. Bresemann served as Vice President and General Manager of Broadcast products from 2010 to 2012. From 2002 to 2009, Mr. Bresemann served as Vice President and General Manager of Wireline products. Mr. Bresemann joined Silicon Laboratories in 1998 as the Director of Marketing and helped craft the company's marketing strategy for its first Wireline products. Prior to joining Silicon Laboratories, Mr. Bresemann served as the Director of Marketing for Consumer and Professional Audio Products at Crystal Semiconductor/Cirrus Logic from 1992 to 1998. From 1988 to 1992, Mr. Bresemann held various sales positions for Analog Devices. Mr. Bresemann holds a B.S. in electrical engineering from the University of Arizona.

Kurt W. Hoff has served as Vice President of Worldwide Sales for Silicon Laboratories since July 2007. From 2005 until July 2007, he managed the company's European sales and operations. Prior to joining Silicon Laboratories in 2005, Mr. Hoff served as president, Chief Executive Officer and director of Cognio. Mr. Hoff also managed the operations and sales of C-Port Corporation, a network processor company acquired by Motorola in May 2000. Additionally, Mr. Hoff spent 10 years in various sales positions at AMD. Mr. Hoff holds a B.S. in Physics from the University of Illinois and an M.B.A. from the University of Chicago.

Jonathan D. Ivester has served as Senior Vice President of Worldwide Operations since June 2008. He served as Vice President of Worldwide Operations since May 2005. He joined Silicon Laboratories in September 1997 as Vice President. Previously, Mr. Ivester was with Applied Materials, a supplier of equipment and services to the semiconductor industry, and served as Director of Manufacturing and Director of U.S. Procurement in addition to various engineering and manufacturing management positions. Mr. Ivester also was a scientist at Bechtel Corporation, an engineering and construction company, and at Abcor, Inc., an ultrafiltration company and subsidiary of Koch Industries. Mr. Ivester holds a B.S. in Chemistry from the Massachusetts Institute of Technology and an M.B.A. from Stanford University.

David R. Welland co-founded Silicon Laboratories in August 1996, has served as a Vice President and director since our inception and was appointed Fellow in March 2004. From November 1991 until founding Silicon Laboratories, Mr. Welland held various positions at Crystal Semiconductor/Cirrus Logic, a designer and manufacturer of integrated circuits, including Senior Design Engineer. Mr. Welland holds a B.S. in Electrical Engineering from the Massachusetts Institute of Technology. Mr. Welland's years of experience as a semiconductor designer provide him with extensive insight into our operations and qualifies him to serve as a member of our Board of Directors.

William G. Bock has served as a director of Silicon Laboratories since he rejoined the Board of Directors in July of 2011. He served Silicon Laboratories as Chief Financial Officer from November

2006 to July 2011, and Senior Vice President of Finance and Administration through December 2011. He joined Silicon Laboratories as a director in March 2000, and served as Chairman of the audit committee until November 2006 when he stepped down from the Board of Directors to assume the CFO role. From 2001 to 2006, Mr. Bock participated in the venture capital industry, principally as a partner with CenterPoint Ventures. Before his venture career, Mr. Bock held senior management positions with three venture-backed companies: DAZEL Corporation, Tivoli Systems, and Convex Computer Corporation. Mr. Bock began his career with Texas Instruments. Mr. Bock served on the Board of Directors of Convio, Inc., from January 2008 until its sale to Blackbaud Inc. in April 2012. Mr. Bock currently serves on the Board of Directors of Entropic Communications and is a member of their Audit Committee. Mr. Bock holds a B.S. in Computer Science from Iowa State University and an M.S. in Industrial Administration from Carnegie Mellon University. Mr. Bock's extensive financial and executive experience and his in-depth knowledge of Silicon Laboratories qualify him to serve as a member of our Board of Directors.

Harvey B. Cash has served as a director of Silicon Laboratories since June 1997. Mr. Cash has served as general partner of InterWest Partners, a venture capital firm, since 1986. Mr. Cash currently serves on the Board of Directors of the following public companies: Ciena Corporation, a designer and manufacturer of dense wavelength division multiplexing systems for fiber optic networks; Argo Group International Holdings, Ltd., a specialty insurance company; and First Acceptance Corp, a provider of low-cost auto insurance. Mr. Cash holds a B.S. in Electrical Engineering from Texas A&M University and an M.B.A. from Western Michigan University. Mr. Cash's independence and experience as a director of various public companies, as well as his prior operational experience as an executive, qualifies him to serve as a member of our Board of Directors.

R. Ted Enloe III has served as a director of Silicon Laboratories since April 2003. Mr. Enloe is currently the Managing General Partner of Balquita Partners, Ltd., a family investment firm. Mr. Enloe formerly served as Vice Chairman and member of the office of chief executive of Compaq Computer Corporation. He also served as President of Lomas Financial Corporation and Liberté Investors for more than 15 years. Mr. Enloe co-founded a number of other publicly held firms, including Capstead Mortgage Corp., Tyler Cabot Mortgage Securities Corp., and Seaman's Corp. Mr. Enloe currently serves on the Board of Directors of Leggett & Platt, Inc. and Live Nation, Inc. Mr. Enloe holds a B.S. in Engineering from Louisiana Polytechnic University and a J.D. from Southern Methodist University. Mr. Enloe's combination of independence, qualification as an audit committee financial expert and his experience, including past experience as an executive officer and current and past experience as a director of various public companies, qualifies him to serve as a member of our Board of Directors.

Kristen M. Onken has served as a director of Silicon Laboratories since September 2007. Ms. Onken was elected to the Board of Directors of Seagate Technology plc in November 2011, where she also serves as the Chair of the Audit Committee. Ms. Onken retired from Logitech in May 2006, a maker of electronics peripherals, where she served as Senior Vice President, Finance, and Chief Financial Officer from February 1999 to May 2006. From September 1996 to February 1999, Ms. Onken served as Vice President of Finance at Fujitsu PC Corporation, the U.S. subsidiary of the Japanese electronics manufacturer. From 1991 to September 1996, Ms. Onken was employed by Sun Microsystems initially as Controller of the Southwest Area, and later as Director of Finance, Sun Professional Services. Ms. Onken holds a B.S. from Southern Illinois University, and an M.B.A. in Finance from the University of Chicago. Ms. Onken's independence and prior experience as the Chief Financial Officer of Logitech and her finance roles with other technology companies qualifies her to serve as a member of our Board of Directors.

Laurence G. Walker has served as a director of Silicon Laboratories since June 2003. Previously, Mr. Walker co-founded and served as Chief Executive Officer of C-Port Corporation, a pioneer in the network processor industry, which was acquired by Motorola in 2000. Following the acquisition, Mr. Walker served as Vice President of Strategy for Motorola's Network and Computing Systems



Group and then as Vice President and General Manager of the Network and Computing Systems Group until 2002. From August 1996 to May 1997, Mr. Walker served as Chief Executive Officer of CertCo, a digital certification supplier. Mr. Walker served as Vice President and General Manager, Network Products Business Unit, of Digital Equipment Corporation, a computer hardware company, from January 1994 to July 1996. From 1998 to 2007, he served on the Board of Directors of McData Corporation, a provider of storage networking solutions. From 1981 to 1994, he held a variety of other management positions at Digital Equipment Corporation. Mr. Walker holds a B.S. in Electrical Engineering from Princeton University and an M.S. and Ph.D. in Electrical Engineering from the Massachusetts Institute of Technology. Mr. Walker's combination of independence and his experience, including past experience as an executive officer, qualifies him to serve as a member of our Board of Directors.

William P. Wood has served as a director of Silicon Laboratories since March 1997 and as Lead Director since December 2005. Since 1996, Mr. Wood has also served as general partner of various funds associated with Silverton Partners, a venture capital firm. From 1984 to 2003, Mr. Wood was a general partner, and for certain funds created since 1996, a special limited partner, of various funds associated with Austin Ventures, a venture capital firm. Mr. Wood holds a B.A. in History from Brown University and an M.B.A. from Harvard University. Mr. Wood's combination of independence and his experience, including past experience as an investor in numerous semiconductor and technology companies, qualifies him to serve as a member of our Board of Directors.

The remaining information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Proposal One: Election of Directors," "Executive Compensation," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Code of Ethics."

#### **Item 11. Executive Compensation**

The information under the caption "Executive Compensation" and "Proposal One: Election of Directors" appearing in the Proxy Statement, is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information under the caption "Ownership of Securities" and "Equity Compensation Plan Information" appearing in the Proxy Statement is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information under the caption "Certain Relationships and Related Transactions, and Director Independence" appearing in the Proxy Statement is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services**

The information under the caption "Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm" appearing in the Proxy Statement is incorporated herein by reference.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

- (a) 1. Financial Statements

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2. Schedules

All schedules have been omitted since the information required by the schedule is not applicable, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and notes thereto.

3. Exhibits

The exhibits listed on the accompanying index to exhibits immediately following the Consolidated Financial Statements are filed as part of, or hereby incorporated by reference into, this Form 10-K.

(b) Exhibits

<u>Exhibit Number</u>	
2.1*	Agreement and Plan of Merger, dated May 16, 2012, by and among Silicon Laboratories Inc., El Dorado Merger Sub, Inc., Ember Corporation and Todd Hixon, as Stakeholder Representative (filed as Exhibit 2.1 to the Form 8-K filed May 21, 2012).
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).
10.1*	Form of Indemnification Agreement between Silicon Laboratories Inc. and each of its directors and executive officers (filed as Exhibit 10.1 to the IPO Registration Statement).
10.2*+	Silicon Laboratories Inc. 2000 Stock Incentive Plan (filed as Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (Securities and Exchange Commission File No. 333-60794) filed on May 11, 2001).
10.3*+	Form of Stock Option Agreement and Notice of Grant of Stock Option under Registrant's 2000 Stock Incentive Plan (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2005).
10.4*+	Form of Addendum to Stock Option Agreement under Registrant's 2000 Stock Incentive Plan (filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2005).
10.5*+	Form of Stock Issuance Agreement under Registrant's 2000 Stock Incentive Plan (filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2005).
10.6*+	Form of Addendum to Stock Issuance Agreement under Registrant's 2000 Stock Incentive Plan (filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2005).
10.7*+	Employment Agreement dated August 30, 2005 between Silicon Laboratories Inc. and Dr. Necip Sayiner (filed as Exhibit 10.1 to the Form 8-K filed September 12, 2005).
10.8*	Lease, Deed of Trust and Security Agreement dated March 30, 2006 among Silicon Laboratories Inc., BAL Investment & Advisory, Inc. and Gary S. Farmer (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 5, 2006).
10.9*	Participation Agreement dated March 30, 2006 among Silicon Laboratories Inc., BAL Investment & Advisory, Inc., Wells Fargo Bank Northwest, National Association and various other financial institutions named therein (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 5, 2006).
10.10*	Sale and Purchase Agreement dated February 8, 2007 by and between NXP B.V., NXP Semiconductors France SAS, Silicon Laboratories Inc. and Silicon Laboratories International Pte. Ltd. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 9, 2007).

Exhibit Number	
10.11*	Intellectual Property License Agreement dated as of March 23, 2007, by and among Silicon Laboratories Inc., Silicon Laboratories International Pte. Ltd., NXP B.V. and NXP Semiconductors France SAS (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 29, 2007).
10.12*	Lease, Deed of Trust and Security Agreement dated March 14, 2008 among Silicon Laboratories Inc., BA Leasing BSC, LLC and Gary S. Farmer (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 19, 2008).
10.13*	Participation Agreement dated March 14, 2008 among Silicon Laboratories Inc., BA Leasing BSC, LLC, Wells Fargo Bank Northwest, National Association and various other financial institutions named therein (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 19, 2008).
10.14*+	Silicon Laboratories Inc. 2009 Stock Incentive Plan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 27, 2009).
10.15*+	Silicon Laboratories Inc. 2009 Employee Stock Purchase Plan (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 27, 2009).
10.16*+	Form of Restricted Stock Units Grant Notice and Restricted Stock Units Award Agreement under Registrant's 2009 Stock Incentive Plan (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 27, 2009).
10.17*+	Form of Stock Option Grant Notice and Stock Option Award Agreement under Registrant's 2009 Stock Incentive Plan (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on April 27, 2009).
10.18*	Credit Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., the subsidiaries of the borrower identified therein, Bank of America, N.A., Wells Fargo Bank, National Association, and Regions Bank (filed as Exhibit 10.1 to the Form 8-K filed August 1, 2012).
10.19*	Security and Pledge Agreement, dated July 31, 2012, by and among Silicon Laboratories Inc., with the other parties identified as "Obligors" (as defined therein) and such other parties that may become Obligors thereunder after the date thereof, and Bank of America, N.A (filed as Exhibit 10.2 to the Form 8-K filed August 1, 2012).
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (included on signature page to this Form 10-K).
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

<b>Exhibit Number</b>	
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.
+	Management contract or compensatory plan or arrangement

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Austin, Texas, on February 1, 2013.

SILICON LABORATORIES INC.

By: /s/ G. TYSON TUTTLE

G. Tyson Tuttle  
*President and Chief Executive Officer*

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints G. Tyson Tuttle and Paul V. Walsh, Jr., and each of them, acting individually, as his or her attorney-in-fact, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K and other documents in connection herewith and therewith, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection herewith and therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ NAVDEEP S. SOOCH</u> Navdeep S. Sooch	Chairman of the Board	February 1, 2013
<u>/s/ G. TYSON TUTTLE</u> G. Tyson Tuttle	President, Chief Executive Officer and Director (Principal Executive Officer)	February 1, 2013
<u>/s/ PAUL V. WALSH, JR.</u> Paul V. Walsh, Jr.	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 1, 2013
<u>/s/ DAVID R. WELLAND</u> David R. Welland	Vice President and Director	February 1, 2013

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WILLIAM G. BOCK</u>		
William G. Bock	Director	February 1, 2013
<u>/s/ HARVEY B. CASH</u>		
Harvey B. Cash	Director	February 1, 2013
<u>/s/ ROBERT TED ENLOE, III</u>		
Robert Ted Enloe, III	Director	February 1, 2013
<u>/s/ KRISTEN M. ONKEN</u>		
Kristen M. Onken	Director	February 1, 2013
<u>/s/ LAURENCE G. WALKER</u>		
Laurence G. Walker	Director	February 1, 2013
<u>/s/ WILLIAM P. WOOD</u>		
William P. Wood	Director	February 1, 2013

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Silicon Laboratories Inc.**

We have audited Silicon Laboratories Inc.'s (the Company) internal control over financial reporting as of December 29, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Silicon Laboratories Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Silicon Laboratories Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Silicon Laboratories Inc. as of December 29, 2012 and December 31, 2011, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended December 29, 2012 of Silicon Laboratories Inc. and our report dated February 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas  
February 1, 2013



**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Silicon Laboratories Inc.**

We have audited the accompanying consolidated balance sheets of Silicon Laboratories Inc. (the Company) as of December 29, 2012 and December 31, 2011, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended December 29, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Silicon Laboratories Inc. at December 29, 2012 and December 31, 2011, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 29, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Silicon Laboratories Inc.'s internal control over financial reporting as of December 29, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas  
February 1, 2013

**Silicon Laboratories Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except per share data)

	December 29, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 105,426	\$ 94,964
Short-term investments	176,565	212,526
Accounts receivable, net of allowances for doubtful accounts of \$670 at December 29, 2012 and \$725 at December 31, 2011	78,023	55,351
Inventories	49,579	34,778
Deferred income taxes	16,652	11,563
Prepaid expenses and other current assets	41,437	43,867
Total current assets	467,682	453,049
Long-term investments	11,369	17,477
Property and equipment, net	135,271	25,141
Goodwill	130,265	115,489
Other intangible assets, net	90,750	60,005
Other assets, net	36,629	34,830
Total assets	<u>\$ 871,966</u>	<u>\$ 705,991</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 29,622	\$ 26,354
Current portion of long-term debt	5,000	—
Accrued expenses	40,410	30,857
Deferred income on shipments to distributors	30,259	24,962
Income taxes	1,087	665
Total current liabilities	106,378	82,838
Long-term debt	95,000	—
Other non-current liabilities	20,615	24,214
Total liabilities	221,993	107,052
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; 41,879 and 42,068 shares issued and outstanding at December 29, 2012 and December 31, 2011, respectively	4	4
Additional paid-in capital	10,122	14,749
Retained earnings	640,793	586,653
Accumulated other comprehensive loss	(946)	(2,467)
Total stockholders' equity	649,973	598,939
Total liabilities and stockholders' equity	<u>\$ 871,966</u>	<u>\$ 705,991</u>

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

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

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Revenues	\$ 563,294	\$ 491,625	\$ 493,341
Cost of revenues	225,277	193,179	169,097
Gross margin	338,017	298,446	324,244
Operating expenses:			
Research and development	137,952	135,953	123,821
Selling, general and administrative	114,390	112,419	113,752
Operating expenses	252,342	248,372	237,573
Operating income	85,675	50,074	86,671
Other income (expense):			
Interest income	1,338	1,859	2,318
Interest expense	(1,149)	(37)	(77)
Other income (expense), net	484	444	(1,253)
Income before income taxes	86,348	52,340	87,659
Provision for income taxes	22,800	16,868	14,417
Net income	\$ 63,548	\$ 35,472	\$ 73,242
Earnings per share:			
Basic	\$ 1.51	\$ 0.82	\$ 1.63
Diluted	\$ 1.47	\$ 0.79	\$ 1.57
Weighted-average common shares outstanding:			
Basic	42,136	43,421	44,845
Diluted	43,106	44,832	46,742

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

**Silicon Laboratories Inc.**  
**Consolidated Statements of Comprehensive Income**  
(In thousands)

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Net income	\$ 63,548	\$ 35,472	\$ 73,242
Other comprehensive income, before tax:			
Net changes to available-for-sale securities:			
Unrealized gains arising during the period	1,000	4	409
Net changes to cash flow hedges:			
Unrealized losses arising during the period	(956)	(424)	(2,640)
Reclassification for losses included in net income	2,295	2,237	3,320
Other comprehensive income, before tax	2,339	1,817	1,089
Provision for income taxes	818	636	381
Other comprehensive income	1,521	1,181	708
Comprehensive income	<u>\$ 65,069</u>	<u>\$ 36,653</u>	<u>\$ 73,950</u>

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

**Silicon Laboratories Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(In thousands)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Number of Shares	Par Value	Additional Paid-In Capital			
Balance as of January 2, 2010	45,772	\$ 5	\$ 128,262	\$ 505,885	\$ (4,356)	\$ 629,796
Net income	—	—	—	73,242	—	73,242
Other comprehensive income	—	—	—	—	708	708
Stock issuances under employee plans, net of shares withheld for taxes	1,453	—	18,055	—	—	18,055
Income tax benefit from employee stock-based awards	—	—	3,277	—	—	3,277
Repurchases of common stock	(3,292)	(1)	(140,331)	—	—	(140,332)
Stock-based compensation	—	—	40,684	—	—	40,684
Balance as of January 1, 2011	43,933	4	49,947	579,127	(3,648)	625,430
Net income	—	—	—	35,472	—	35,472
Other comprehensive income	—	—	—	—	1,181	1,181
Stock issuances under employee plans, net of shares withheld for taxes	1,290	—	7,660	—	—	7,660
Income tax benefit from employee stock-based awards	—	—	2,707	—	—	2,707
Repurchases of common stock	(3,155)	—	(82,117)	(27,946)	—	(110,063)
Stock-based compensation	—	—	36,552	—	—	36,552
Balance as of December 31, 2011	42,068	4	14,749	586,653	(2,467)	598,939
Net income	—	—	—	63,548	—	63,548
Other comprehensive income	—	—	—	—	1,521	1,521
Stock issuances under employee plans, net of shares withheld for taxes	1,560	—	15,148	—	—	15,148
Income tax benefit from employee stock-based awards	—	—	1,675	—	—	1,675
Repurchases of common stock	(1,749)	—	(52,611)	(9,408)	—	(62,019)
Stock-based compensation	—	—	31,161	—	—	31,161
Balance as of December 29, 2012	41,879	\$ 4	\$ 10,122	\$ 640,793	\$ (946)	\$ 649,973

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

**Silicon Laboratories Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
<b>Operating Activities</b>			
Net income	\$ 63,548	\$ 35,472	\$ 73,242
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	13,621	13,570	11,797
Net gain on the purchase of property and equipment	(8,457)	—	—
Amortization of other intangible assets and other assets	14,154	11,030	7,494
Impairment of long-lived assets	708	1,322	—
Stock-based compensation expense	31,176	36,115	40,324
Income tax benefit from employee stock-based awards	1,827	2,814	3,295
Excess income tax benefit from employee stock-based awards	(1,294)	(2,404)	(2,412)
Deferred income taxes	4,725	(445)	(552)
Changes in operating assets and liabilities:			
Accounts receivable	(20,743)	(8,562)	11,342
Inventories	(13,056)	5,334	(7,811)
Prepaid expenses and other assets	10,629	(5,948)	(5,300)
Accounts payable	7,217	(2,176)	(777)
Accrued expenses	(3,812)	(1,320)	(2,590)
Deferred income on shipments to distributors	4,623	(1,915)	(2,343)
Income taxes	(7,816)	5,855	(7,774)
Net cash provided by operating activities	97,050	88,742	117,935
<b>Investing Activities</b>			
Purchases of available-for-sale investments	(192,450)	(178,676)	(357,777)
Proceeds from sales and maturities of marketable securities	235,517	193,474	352,779
Purchases of property and equipment	(102,043)	(8,690)	(13,850)
Purchases of other assets	(8,508)	(4,018)	(8,372)
Acquisitions of businesses, net of cash acquired	(71,852)	(27,262)	(28,021)
Net cash used in investing activities	(139,336)	(25,172)	(55,241)
<b>Financing Activities</b>			
Proceeds from issuance of common stock, net of shares withheld for taxes	15,148	7,660	18,055
Excess income tax benefit from employee stock-based awards	1,294	2,404	2,412
Repurchases of common stock	(62,019)	(110,063)	(140,331)
Proceeds from issuance of long-term debt, net	98,325	—	—
Payments on debt	—	(7,174)	—
Net cash provided by (used in) financing activities	52,748	(107,173)	(119,864)
Increase (decrease) in cash and cash equivalents	10,462	(43,603)	(57,170)
Cash and cash equivalents at beginning of period	94,964	138,567	195,737
Cash and cash equivalents at end of period	<u>\$ 105,426</u>	<u>\$ 94,964</u>	<u>\$ 138,567</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest paid	\$ 677	\$ 35	\$ 90
Income taxes paid	<u>\$ 23,564</u>	<u>\$ 8,241</u>	<u>\$ 20,780</u>

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

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012**

**1. Description of Business**

Silicon Laboratories Inc. (the "Company"), a Delaware corporation, develops and markets mixed-signal analog intensive integrated circuits (ICs) for a broad range of applications for global markets. Within the semiconductor industry, the Company is known as a "fabless" company meaning that the ICs are manufactured by third-party foundry semiconductor companies.

**2. Significant Accounting Policies**

*Basis of Presentation and Principles of Consolidation*

The Company prepares financial statements on a 52- or 53-week fiscal year that ends on the Saturday closest to December 31. Fiscal 2012, 2011 and 2010 were 52-week years and ended on December 29, 2012, December 31, 2011 and January 1, 2011, respectively. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

*Foreign Currency Transactions*

The Company's foreign subsidiaries are considered to be extensions of the U.S. Company. The functional currency of the foreign subsidiaries is the U.S. dollar. Accordingly, gains and losses resulting from remeasuring transactions denominated in currencies other than U.S. dollars are included in other income (expense), net in the Consolidated Statements of Income.

*Use of Estimates*

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

*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.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**2. Significant Accounting Policies (Continued)**

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash deposits, money market funds and investments in debt securities with original maturities of ninety days or less when purchased.

*Investments*

The Company's investments typically have original maturities greater than ninety days as of the date of purchase and are classified as either available-for-sale or trading securities. Investments in available-for-sale securities are reported at fair value, with unrealized gains and losses, net of tax, recorded as a component of accumulated other comprehensive loss in the Consolidated Balance Sheet. Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), net in the Consolidated Statement of Income. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations (including those with contractual maturities greater than one year from the date of purchase) are classified as short-term.

The Company reviews its available-for-sale investments as of the end of each reporting period for other-than-temporary declines in fair value based on the specific identification method. The Company considers 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, its intent to sell or the likelihood that it would be required to sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has occurred, the Company assesses whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery. If either of these two conditions is met, the Company recognizes a charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell a security and it is not more likely than not that it 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.

*Derivative Financial Instruments*

The Company uses derivative financial instruments to manage certain exposures to the variability of interest rates. The Company's objective is 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 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 according to the nature of the cash receipt or payment in the Consolidated Statement of Cash Flows.

*Inventories*

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. The Company writes down the carrying value of inventory to net realizable value for estimated



**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**2. Significant Accounting Policies (Continued)**

obsolescence or unmarketable inventory based upon assumptions about the age of inventory, future demand and market conditions. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.

*Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the assets ranging from three to five years. Leasehold improvements are depreciated over the contractual lease period or their useful life, whichever is shorter.

In fiscal 2012, the Company purchased the facilities it had previously leased for its headquarters in Austin, Texas. The buildings are located on land which is leased through 2099 from a third party. The rents for these ground leases were prepaid for the term of the leases by the previous lessee. The buildings and leasehold interest in ground leases are being depreciated on a straight-line basis over their estimated useful lives of 40 years and 86 years, respectively.

*Long-Lived Assets*

Purchased intangible assets are stated at cost, net of accumulated amortization, and are amortized using the straight-line method over their estimated useful lives, ranging from two to twelve years. Fair values are determined primarily using the income approach, in which the Company projects future expected cash flows and applies an appropriate discount rate.

Long-lived assets "held and used" by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives, against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made.

The carrying value of goodwill is reviewed at least annually by the Company for possible impairment. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares the fair value of the reporting unit to the net book value of the reporting unit. In determining fair value, several valuation methodologies are allowed, although quoted market prices are the best evidence of fair value. If the results of the first step demonstrate that the net book value is greater than the fair value, the Company must proceed to step two of the analysis. Step two of the analysis compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The Company tests goodwill for impairment annually as of the first day of its fourth fiscal quarter and in interim periods if events occur that would indicate that the carrying value of goodwill may be impaired.

*Revenue Recognition*

Revenues are generated almost exclusively by sales of the Company's ICs. The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**2. Significant Accounting Policies (Continued)**

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.

*Shipping and Handling*

Shipping and handling costs are classified as a component of cost of revenues in the Consolidated Statements of Income.

*Stock-Based Compensation*

The Company has stock-based compensation plans, which are more fully described in Note 13, *Stock-Based Compensation*. The Company accounts for those plans using a fair-value method and recognizes the expense in its Consolidated Statement of Income.

*Research and Development*

Research and development costs are expensed as incurred. Research and development expense consists primarily of personnel-related expenses, including stock-based compensation, as well as new product masks, external consulting and services costs, equipment tooling, equipment depreciation, amortization of intangible assets, and an allocated portion of our occupancy costs. Assets purchased to support the Company's ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or have an alternative future use, and are amortized over their estimated useful lives.

*Advertising*

Advertising costs are expensed as incurred. Advertising expenses were \$1.7 million, \$1.6 million and \$1.4 million in fiscal 2012, 2011 and 2010, respectively.

*Income Taxes*

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax laws and related rates that will be in effect when the differences are expected to reverse. These differences result in deferred tax assets and liabilities, which are included in the Company's Consolidated Balance Sheet. The Company then assesses the likelihood that the deferred tax assets will be realized. A valuation allowance is established against deferred tax assets to the extent the Company believes that it is more

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**2. Significant Accounting Policies (Continued)**

likely than not that the deferred tax assets will not be realized, taking into consideration the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible.

Uncertain tax positions must meet a more-likely-than-not threshold to be recognized in the financial statements and the tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon final settlement. See further discussion in Note 15, *Income Taxes*.

*Recent Accounting Pronouncements*

In July 2012, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In December 2011, the FASB issued FASB ASU No. 2011-11, *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information about these instruments. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

### 3. Earnings Per Share

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

	December 29, 2012	Year Ended December 31, 2011	January 1, 2011
Net income	\$ 63,548	\$ 35,472	\$ 73,242
Shares used in computing basic earnings per share	42,136	43,421	44,845
Effect of dilutive securities:			
Stock options and other stock-based awards	970	1,411	1,897
Shares used in computing diluted earnings per share	43,106	44,832	46,742
Earnings per share:			
Basic	\$ 1.51	\$ 0.82	\$ 1.63
Diluted	\$ 1.47	\$ 0.79	\$ 1.57

For fiscal years ended December 29, 2012, December 31, 2011 and January 1, 2011, approximately 0.5 million, 0.4 million and 0.6 million shares, respectively, were not included in the diluted earnings per share calculation since the shares were anti-dilutive.

### 4. Cash, Cash Equivalents and Investments

The Company's cash equivalents and short-term investments as of December 29, 2012 consisted of corporate bonds, money market funds, municipal bonds, U.S. Treasury bills, variable-rate demand notes, U.S. government bonds, asset-backed securities and international government bonds. The Company's long-term investments consisted 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 December 29, 2012, the Company held \$12.5 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 \$10.5 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of December 29, 2012, \$4.5 million of the auction-rate securities had credit ratings of AAA, \$6.0 million had credit ratings of AA and \$2.0 million had a credit rating of A. These securities have contractual maturity dates ranging from 2033 to 2046 and with current yields of 0.23% to 1.71% per year at December 29, 2012. 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

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**4. Cash, Cash Equivalents and Investments (Continued)**

the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of December 29, 2012.

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

	December 29, 2012			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
<b>Cash and Cash Equivalents:</b>				
Cash on hand	\$ 56,690	\$ —	\$ —	\$ 56,690
Available-for-sale securities:				
U.S. Treasury bills	25,049	—	1	25,050
Money market funds	22,685	—	1	22,686
Municipal bonds	1,000	—	—	1,000
Total available-for-sale securities	48,734	—	2	48,736
Total cash and cash equivalents	\$ 105,424	\$ —	\$ 2	\$ 105,426
<b>Short-term Investments:</b>				
Available-for-sale securities:				
Corporate bonds	\$ 59,089	\$ (5)	\$ 267	\$ 59,351
Municipal bonds	45,646	(7)	50	45,689
Variable-rate demand notes	41,785	—	—	41,785
Asset-backed securities	15,058	—	11	15,069
U.S. government bonds	12,638	—	25	12,663
International government bonds	1,991	—	17	2,008
Total short-term investments	\$ 176,207	\$ (12)	\$ 370	\$ 176,565
<b>Long-term Investments:</b>				
Available-for-sale securities:				
Auction rate securities	\$ 12,525	\$ (1,156)	\$ —	\$ 11,369
Total long-term investments	\$ 12,525	\$ (1,156)	\$ —	\$ 11,369

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**4. Cash, Cash Equivalents and Investments (Continued)**

	December 31, 2011			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
<b>Cash and Cash Equivalents:</b>				
Cash on hand	\$ 44,113	\$ —	\$ —	\$ 44,113
Available-for-sale securities:				
Money market funds	50,851	—	—	50,851
<b>Total cash and cash equivalents</b>	<b>\$ 94,964</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 94,964</b>
<b>Short-term Investments:</b>				
Available-for-sale securities:				
Corporate bonds	\$ 75,189	\$ (363)	\$ 234	\$ 75,060
Municipal bonds	56,915	(12)	81	56,984
Variable-rate demand notes	41,280	—	—	41,280
U.S. government agency	19,820	(12)	28	19,836
U.S. Treasury bills	8,600	—	—	8,600
Asset-backed securities	5,743	(5)	1	5,739
U.S. government bonds	2,507	—	—	2,507
Certificates of deposit	1,570	—	—	1,570
International government bonds	950	—	—	950
<b>Total short-term investments</b>	<b>\$ 212,574</b>	<b>\$ (392)</b>	<b>\$ 344</b>	<b>\$ 212,526</b>
<b>Long-term Investments:</b>				
Available-for-sale securities:				
Auction rate securities	\$ 19,225	\$ (1,748)	\$ —	\$ 17,477
<b>Total long-term investments</b>	<b>\$ 19,225</b>	<b>\$ (1,748)</b>	<b>\$ —</b>	<b>\$ 17,477</b>

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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>As of December 29, 2012</b>						
Municipal bonds	\$ 17,152	\$ (7)	\$ —	\$ —	\$ 17,152	\$ (7)
Auction rate securities	—	—	11,369	(1,156)	11,369	(1,156)
Corporate bonds	9,543	(5)	—	—	9,543	(5)
	<b>\$ 26,695</b>	<b>\$ (12)</b>	<b>\$ 11,369</b>	<b>\$ (1,156)</b>	<b>\$ 38,064</b>	<b>\$ (1,168)</b>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**4. Cash, Cash Equivalents and Investments (Continued)**

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 31, 2011						
Corporate bonds	\$ 25,438	\$ (363)	\$ —	\$ —	\$ 25,438	\$ (363)
Auction rate securities	—	—	17,477	(1,748)	17,477	(1,748)
Municipal bonds	10,437	(12)	—	—	10,437	(12)
U.S. government agency	5,772	(12)	—	—	5,772	(12)
Asset-backed securities	4,539	(5)	—	—	4,539	(5)
	<u>\$ 46,186</u>	<u>\$ (392)</u>	<u>\$ 17,477</u>	<u>\$ (1,748)</u>	<u>\$ 63,663</u>	<u>\$ (2,140)</u>

The gross unrealized losses as of December 29, 2012 and December 31, 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 December 29, 2012 (in thousands):

	Cost	Fair Value
Due in one year or less	\$ 93,389	\$ 93,450
Due after one year through ten years	95,117	95,416
Due after ten years	48,960	47,804
	<u>\$ 237,466</u>	<u>\$ 236,670</u>

**5. Derivative Financial Instruments**

The Company is exposed to interest rate fluctuations in the normal course of its business, including through its Credit Facilities. The interest payments on the facility are calculated using a variable-rate of interest. The Company has entered into an interest rate swap agreement with a notional value of \$100 million (equal to the full amount borrowed under the Term Loan Facility) and, effectively, converted the LIBOR portion of the variable-rate interest payments to fixed-rate interest payments through July 2017 (the maturity date of the Term Loan Facility). The Company's interest rate swap agreement is designated and qualifies as a cash flow hedge.

The Company's previous swap agreement with a notional value of \$50.1 million was terminated on September 28, 2012 in connection with the Company's purchase of its corporate headquarters facilities. See Note 9, *Acquisitions*, for additional information.

The Company estimates the fair values of derivatives based on quoted prices and market observable data of similar instruments. If the Term Loan Facility or the interest rate swap agreement is terminated prior to maturity, the fair value of the interest rate swap recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the agreements at the time of termination. The termination of the Company's swap agreement with a notional value of \$50.1 million resulted in its remaining fair value of \$0.9 million that

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**5. Derivative Financial Instruments (Continued)**

was previously recorded in accumulated other comprehensive loss to be reclassified into earnings during fiscal 2012.

The Company measures the effectiveness of its cash flow hedge 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 December 29, 2012, 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 instruments consisted of the following (in thousands):

	Balance Sheet Location	Fair Value	
		December 29, 2012	December 31, 2011
Interest rate swaps	Other non-current liabilities	\$ 658	\$ 1,998

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 Year Ended			Location of Loss Reclassified into Income	Loss Reclassified from Accumulated OCI into Income (Effective Portion) during the Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011		December 29, 2012	December 31, 2011	January 1, 2011
Interest rate swaps	\$ (956)	\$ (424)	\$ (2,640)	Rent expense	\$ (2,197)	\$ (2,237)	\$ (3,321)
				Interest expense	(98)	—	—

The Company expects to reclassify \$0.5 million of its interest rate swap losses included in accumulated other comprehensive loss as of December 29, 2012 into earnings in the next 12 months, which is offset by lower interest payments.



**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**6. Fair Value of Financial Instruments**

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	Fair Value Measurements at December 29, 2012 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>				
<b>Cash Equivalents:</b>				
U.S. Treasury bills	\$ 25,050	\$ —	\$ —	\$ 25,050
Money market funds	22,686	—	—	22,686
Municipal bonds	—	1,000	—	1,000
Total cash equivalents	\$ 47,736	\$ 1,000	\$ —	\$ 48,736
<b>Short-term Investments:</b>				
Corporate bonds	\$ —	\$ 59,351	\$ —	\$ 59,351
Municipal bonds	—	45,689	—	45,689
Variable-rate demand notes	—	41,785	—	41,785
Asset-backed securities	—	15,069	—	15,069
U.S. government bonds	12,663	—	—	12,663
International government bonds	—	2,008	—	2,008
Total short-term investments	\$ 12,663	\$ 163,902	\$ —	\$ 176,565
<b>Long-term Investments:</b>				
Auction rate securities	\$ —	\$ —	\$ 11,369	\$ 11,369
Total long-term investments	\$ —	\$ —	\$ 11,369	\$ 11,369
<b>Total</b>	<b>\$ 60,399</b>	<b>\$ 164,902</b>	<b>\$ 11,369</b>	<b>\$ 236,670</b>
<b>Liabilities:</b>				
Derivative instruments	\$ —	\$ 658	\$ —	\$ 658
Contingent consideration	—	—	2,750	2,750
<b>Total</b>	<b>\$ —</b>	<b>\$ 658</b>	<b>\$ 2,750</b>	<b>\$ 3,408</b>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**6. Fair Value of Financial Instruments (Continued)**

	Fair Value Measurements at December 31, 2011 Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
<b>Cash Equivalents:</b>				
Money market funds	\$ 50,851	\$ —	\$ —	\$ 50,851
Total cash equivalents	\$ 50,851	\$ —	\$ —	\$ 50,851
<b>Short-term Investments:</b>				
Corporate bonds	\$ —	\$ 75,060	\$ —	\$ 75,060
Municipal bonds	—	56,984	—	56,984
Variable-rate demand notes	—	41,280	—	41,280
U.S. government agency	—	19,836	—	19,836
U.S. Treasury bills	8,600	—	—	8,600
Asset-backed securities	—	5,739	—	5,739
U.S. government bonds	2,507	—	—	2,507
Certificates of deposit	—	1,570	—	1,570
International government bonds	—	950	—	950
Total short-term investments	\$ 11,107	\$ 201,419	\$ —	\$ 212,526
<b>Long-term Investments:</b>				
Auction rate securities	\$ —	\$ —	\$ 17,477	\$ 17,477
Total long-term investments	\$ —	\$ —	\$ 17,477	\$ 17,477
<b>Total</b>	<b>\$ 61,958</b>	<b>\$ 201,419</b>	<b>\$ 17,477</b>	<b>\$ 280,854</b>
<b>Liabilities:</b>				
Derivative instruments	\$ —	\$ 1,998	\$ —	\$ 1,998
Contingent consideration	—	—	876	876
<b>Total</b>	<b>\$ —</b>	<b>\$ 1,998</b>	<b>\$ 876</b>	<b>\$ 2,874</b>

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. Cash equivalents and short-term 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.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**6. Fair Value of Financial Instruments (Continued)**

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 outcomes if milestone goals are achieved, the probability of achieving each outcome and discount rates.

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

***Auction rate securities***

Fair Value at December 29, 2012 (000s)	Valuation Technique	Unobservable Input	Weighted Average
\$11,369	Discounted cash flow	Estimated yield	1.24%
		Expected holding period	10 years
		Estimated discount rate	2.78%

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

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

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**6. Fair Value of Financial Instruments (Continued)**

*Contingent consideration*

Fair Value at December 29, 2012 (000s)	Valuation Technique	Unobservable Input	Weighted- Average	Range
\$2,750	Probability weighted discounted cash flow	Estimated outcomes if milestone goals are achieved	\$2.8 million	\$1.2 million - \$4.2 million
		Estimated probability of achieving each outcome	33%	25% - 50%
		Estimated discount rate	5.10%	n/a

The Company has followed an established internal control procedure used in valuing contingent consideration. The valuation of contingent consideration is based on a weighted-average discounted cash flows model. The model relies primarily on estimates of outcomes if milestones are achieved, the probability of achieving each outcome and discount rates. The fair value of this valuation is estimated on a quarterly basis through a collaborative effort by the Company's sales, marketing and finance departments.

Significant changes in any of the unobservable inputs used in the fair value measurement of contingent consideration in isolation could result in a significantly lower or higher fair value. A change in projected outcomes if milestone goals are achieved would be accompanied by a directionally similar change in fair value. A change in discount rate would be accompanied by a directionally opposite change in fair value.

The following summarizes the activity in Level 3 financial instruments for the years ended December 29, 2012 and December 31, 2011 (in thousands):

*Assets*

	Year Ended	
	December 29, 2012	December 31, 2011
<u>Auction Rate Securities</u>		
Beginning balance	\$ 17,477	\$ 17,500
Settlements	(6,700)	(500)
Gains included in other comprehensive income	592	477
Ending balance	<u>\$ 11,369</u>	<u>\$ 17,477</u>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**6. Fair Value of Financial Instruments (Continued)**

*Liabilities*

	Year Ended	
	December 29, 2012	December 31, 2011
<b>Contingent Consideration (1)</b>		
Beginning balance	\$ 876	\$ 1,780
Issues	4,004	1,025
Gain recognized in earnings (2)	(2,130)	(1,929)
Balance at December 29, 2012	\$ 2,750	\$ 876
Net gain for the year included in earnings attributable to contingent consideration still held at the end of the period:	\$ 1,254	\$ 1,929

- (1) In connection with the acquisition of Ember, 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.
- (2) The Company reduced the estimated fair value of contingent consideration because certain milestone goals were either not achieved or were expected to be achieved at a lower outcome.

*Fair values of other financial instruments*

The fair value of the Company's Term Loan Facility approximates its carrying values due to the variable interest rate feature of this instrument. 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.

**7. Balance Sheet Details**

The following tables show the details of selected Consolidated Balance Sheet items (in thousands):

*Inventories*

	December 29, 2012	December 31, 2011
Work in progress	\$ 42,103	\$ 28,023
Finished goods	7,476	6,755
	<u>\$ 49,579</u>	<u>\$ 34,778</u>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**7. Balance Sheet Details (Continued)**

*Prepaid Expenses and Other Current Assets*

	December 29, 2012	December 31, 2011
Distributor advances	\$ 21,260	\$ 23,221
Other	20,177	20,646
	<u>\$ 41,437</u>	<u>\$ 43,867</u>

*Property and Equipment*

	December 29, 2012	December 31, 2011
Buildings	\$ 90,900	\$ —
Equipment	48,219	43,934
Computers and purchased software	27,294	28,371
Leasehold interest in ground leases	23,840	—
Furniture and fixtures	3,129	3,356
Leasehold improvements	7,587	21,832
	<u>200,969</u>	<u>97,493</u>
Accumulated depreciation	(65,698)	(72,352)
	<u>\$ 135,271</u>	<u>\$ 25,141</u>

*Accrued Expenses*

	December 29, 2012	December 31, 2011
Accrued compensation and benefits	\$ 22,298	\$ 17,948
Other	18,112	12,909
	<u>\$ 40,410</u>	<u>\$ 30,857</u>

*Other Non-current Liabilities*

	December 29, 2012	December 31, 2011
Acquired unfavorable leases	\$ 11,794	\$ —
Unrecognized tax benefits	4,364	10,943
Software license accruals	1,954	6,047
Other	2,503	7,224
	<u>\$ 20,615</u>	<u>\$ 24,214</u>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**8. Risks and Uncertainties***Financial Instruments*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, investments, accounts receivable and derivatives. The Company places its cash equivalents and investments primarily in corporate bonds, municipal bonds, variable-rate demand notes, U.S. Treasury bills, money market funds, asset-backed securities, U.S. government bonds, auction-rate securities and international government bonds. Concentrations of credit risk with respect to accounts receivable are primarily due to customers with large outstanding balances. The Company's customers that accounted for greater than 10% of accounts receivable consisted of the following:

	December 29, 2012	December 31, 2011
Edom Technology	23%	29%
Avnet	12%	13%

The Company performs periodic credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company provides an allowance for potential credit losses based upon the expected collectibility of such receivables. Losses have not been significant for any of the periods presented.

*Distributor Advances*

On sales to distributors, the Company's payment terms often require the distributor to settle amounts owed to the Company for an amount in excess of their ultimate cost. The Company's sales price to its distributors may be higher than the amount that the distributors will ultimately owe the Company because distributors often negotiate price reductions after purchasing the product from the Company and such reductions are often significant. These negotiated price discounts are not granted until the distributor sells the product to the end customer, which may occur after the distributor has paid the original invoice amount to the Company. Payment of invoices prior to receiving an associated discount can have an adverse impact on the working capital of the Company's distributors. Accordingly, the Company has entered into agreements with certain distributors whereby it advances cash to the distributors to reduce the distributor's working capital requirements. The advance amounts are based on the distributor's inventory balance, and are adjusted quarterly. Such amounts are recorded in prepaid expenses and other current assets in the Consolidated Balance Sheet. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be cancelled by the Company at any time.

*Suppliers*

A significant portion of the Company's products are fabricated by Taiwan Semiconductor Manufacturing Co. (TSMC) or its affiliates. The inability of TSMC to deliver wafers to the Company on a timely basis could impact the production of the Company's products for a substantial period of time, which could have a material adverse effect on the Company's business, financial condition and results of operations.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

## 8. Risks and Uncertainties (Continued)

### *Customers*

The Company sells directly to end customers, distributors and contract manufacturers. Although the Company actually sells the products to, and is paid by, distributors and contract manufacturers, the Company refers to the end customer as its customer. None of the Company's contract manufacturers accounted for greater than 10% of revenue during fiscal 2012, 2011 or 2010. The Company's end customers and distributors that accounted for greater than 10% of revenue consisted of the following:

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
<i>End Customers</i>			
Samsung*	19%	13%	**
<i>Distributors</i>			
Edom Technology	22%	24%	28%
Avnet	11%	12%	14%
Macnica	**	10%	**

\* Samsung's purchases were across a variety of product areas.

\*\* Less than 10% of revenue

## 9. Acquisitions

### *Ember*

On July 3, 2012, the Company acquired Ember Corporation, a privately held company. Ember's products integrate high-performance, low-power 2.4 GHz wireless ICs with reliable and scalable software into a flexible and robust networking platform.

The Company acquired Ember for approximately \$79.0 million, including contingent consideration with an estimated fair value of \$4.0 million at the date of acquisition. The contingent consideration is payable on a dollar for dollar basis to the extent that revenue of the acquired products exceeds \$27.0 million over a one-year period from the beginning of the third fiscal quarter of 2012 through the end of the second fiscal quarter of 2013.

The Company recorded the purchase of Ember 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 Ember's operations are included in the Company's consolidated results of operations beginning on the date of the acquisition. Pro forma information related to this acquisition has not been presented because it would not be materially different from amounts reported. Acquisition-related costs were not significant.

The Company believes that this strategic acquisition provides it with the technology and software expertise required to enable the low-power mesh sensor networks being deployed today in a wide range of residential, commercial and industrial applications. 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



**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**9. Acquisitions (Continued)**

goodwill. The goodwill 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	\$ 14,810	Not amortized
Developed technology	17,800	11
Customer relationships	5,620	9
Trademarks	910	12
	39,140	
Cash and cash equivalents	3,115	
Accounts receivable	1,928	
Inventories	4,749	
Other current assets	324	
Goodwill	14,777	
Non-current deferred tax assets, net	16,449	
Other non-current assets	1,776	
Current liabilities	(3,287)	
Total purchase price	<u>\$ 78,971</u>	

In-process research and development (IPR&D) represents acquired technology that had not achieved technological feasibility as of the acquisition date and had no alternative future use. The IPR&D recorded in connection with the acquisition of Ember consisted of a low-power RF transceiver. The fair value of this technology was determined using the income approach. The discount rate applicable to the cash flows was 12.5%. The remaining research and development efforts include additional design, integration and testing. The estimated cost to complete the IPR&D as of the acquisition date was approximately \$11.2 million. Such costs have been consistent with the Company's assumptions at the time of the acquisition. The significant risks associated with the successful completion of this project include the Company's potential inability to finish the product designs, produce working models and gain customer acceptance. The Company does not expect the products derived from this technology to begin to contribute to revenues prior to fiscal 2013.

*Corporate Headquarters Buildings*

The Company leased facilities at 400 W. Cesar Chavez ("400 WCC") and 200 W. Cesar Chavez ("200 WCC") in Austin, Texas for its corporate headquarters. During the terms of the leases, the Company had options to purchase the buildings for approximately \$44.3 million for 400 WCC and \$50.1 million for 200 WCC. On September 28, 2012, the Company exercised such options and purchased the facilities.

The buildings are located on land which is leased through 2099 from a third party. The rents for these ground leases were prepaid for the term of the leases by the previous lessee. The first floor of each building was leased to the same third party for the term of the ground leases. The base rents for

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**9. Acquisitions (Continued)**

the first floor leases were prepaid to the previous owner of the buildings. Portions of the remaining floors were also leased to other tenants.

The Company determined that the purchase of the facilities represented a business combination. Under the acquisition method of accounting, the assets acquired and liabilities assumed were recorded at their fair values as of the date of the acquisition. The purchase price was allocated as follows (in thousands):

	<u>Amount</u>
Buildings	\$ 90,900
Leasehold interest in ground leases	23,840
Acquired unfavorable leases	(11,925)
Lease-related charges	(8)
Net gain on purchase	(8,457)
Total purchase price	<u>\$ 94,350</u>

The buildings and leasehold interest in ground leases will be depreciated on a straight-line basis over their estimated useful lives of 40 years and 86 years, respectively. Acquired unfavorable leases represent the difference between contractual minimum rental payments due under previously-existing leases in each building and the market rates of those same leases. This amount was recorded in other non-current liabilities in the Consolidated Balance Sheet and will be amortized to rental income over the estimated terms of the leases.

The purchase of the facilities resulted in a net gain of approximately \$8.5 million, which was recorded in selling, general and administrative expenses in the Consolidated Statement of Income. The gain resulted primarily because the assets acquired and liabilities assumed were recorded at their fair values as of the date of the acquisition, which was substantially higher than the purchase prices of the facilities. The purchase prices were fixed at the beginning of the two leases in March 2006 and March 2008. While market prices for such facilities increased over the terms of the leases, the purchase prices remained the same.

*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. 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 compensation expense in the Company's financial statements during fiscal 2011.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**9. Acquisitions (Continued)**

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 information related to this acquisition has not been presented because it would not be materially different from amounts reported. Acquisition-related costs were not significant.

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 is not 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	10
Customer relationships	1,400	10
	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	<u>\$ 28,579</u>	

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.

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

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**9. Acquisitions (Continued)**

Company recorded goodwill. The goodwill 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
Customer relationships	30	2
	<u>9,730</u>	
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	<u>\$ 21,025</u>	

The in-process research and development recorded in connection with the acquisition of Silicon Clocks was developed using MEMS technology. The fair value 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.

*ChipSensors*

In October 2010, the Company acquired ChipSensors Ltd, a privately held company for approximately \$11.7 million. ChipSensors created innovative single-chip CMOS sensors designed to detect temperature, humidity and gases. 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 purchase price was allocated as follows: intangible assets—\$9.1 million; goodwill—\$3.1 million; and net tangible assets—\$(0.5) million.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**10. Goodwill and Other Intangible Assets**

*Goodwill*

The following summarizes the activity in goodwill for the years ended December 29, 2012 and December 31, 2011 (in thousands):

	Year Ended	
	December 29, 2012	December 31, 2011
Beginning balance	\$ 115,489	\$ 112,296
Additions due to business combinations	14,776	4,097
Adjustments	—	(904)
Ending balance	<u>\$ 130,265</u>	<u>\$ 115,489</u>

*Other Intangible Assets*

The gross carrying amount and accumulated amortization of other intangible assets are as follows (in thousands):

		December 29, 2012		December 31, 2011	
	Weighted-Average Amortization Period (Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<b>Intangible assets:</b>					
Subject to amortization:					
Core and developed technology	10	\$ 95,420	\$ (30,145)	\$ 79,500	\$ (30,432)
Customer relationships	9	8,100	(1,057)	2,510	(523)
Patents	6	3,000	(250)	—	—
Trademarks	12	910	(38)	—	—
	<u>10</u>	<u>107,430</u>	<u>(31,490)</u>	<u>82,010</u>	<u>(30,955)</u>
Not subject to amortization:					
In-process research and development	Not amortized	14,810	—	8,950	—
Total intangible assets		<u>\$ 122,240</u>	<u>\$ (31,490)</u>	<u>\$ 90,960</u>	<u>\$ (30,955)</u>

Gross intangible assets increased \$42.1 million in fiscal 2012 primarily due to the acquisition of Ember. This increase was offset by the removal of \$9.3 million of fully amortized assets and \$1.6 million of impaired assets (which had a remaining unamortized balance of \$0.7 million, resulting in a \$0.7 million charge to selling, general and administrative expense in the Consolidated Statement of Income). The impaired assets were written down to zero.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**10. Goodwill and Other Intangible Assets (Continued)**

Amortization expense related to intangible assets for fiscal 2012, 2011 and 2010 was \$10.7 million, \$9.9 million and \$7.5 million, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the five succeeding fiscal years is as follows (in thousands):

<u>Fiscal Year</u>	
2013	\$ 11,213
2014	10,372
2015	9,981
2016	9,331
2017	8,364

**11. Debt**

On July 31, 2012, the Company and certain of its domestic subsidiaries (the "Guarantors") entered into a \$230 million five-year Credit Agreement (the "Agreement"). The Agreement consists of a \$100 million Term Loan Facility and a \$130 million Revolving Credit Facility (collectively, the "Credit Facilities").

The Term Loan Facility provides for quarterly principal amortization (equal to 5% of the principal in each of the first two years and 10% of the principal in each of the next three years) with the remaining balance payable upon the maturity date. The Revolving Credit Facility includes a \$25 million letter of credit sublimit and a \$10 million swingline loan sublimit. The Company has an option to increase the size of the Revolving Credit Facility by up to an aggregate of \$50 million in additional commitments, subject to certain conditions. On September 27, 2012, the Company borrowed \$100 million under the Term Loan Facility. To date, the Company has not borrowed under the Revolving Credit Facility.

The Term Loan Facility and Revolving Credit Facility, other than swingline loans, will bear interest at LIBOR plus an applicable margin or, at the option of the Company, a base rate (defined as the highest of the Bank of America prime rate, the Federal Funds rate plus 0.50% and a daily rate equal to one-month LIBOR plus 1.00%) plus an applicable margin. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. The applicable margins for the LIBOR rate loans range from 1.50% to 2.50% and for base rate loans range from 0.50% to 1.50%, depending in each case, on the leverage ratio as defined in the Agreement. The Company also pays a commitment fee on the unused amount of the Revolving Credit Facility.

In connection with the closing of the Credit Agreement, the Company entered into a security and pledge agreement. Under the security and pledge agreement, the Company pledged equity securities of certain of its subsidiaries, subject to exceptions and limitations. The Credit Facilities contain various conditions, covenants and representations with which the Company must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that the Company must maintain a leverage ratio (funded debt/EBITDA) of no more than 2.5 to 1 and a minimum fixed charge coverage ratio (EBITDA/debt payments, income taxes and capital expenditures) of no less than 1.50 to 1. As of December 29, 2012, the Company was in compliance with all covenants of the Credit Facilities.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**11. Debt (Continued)**

The contractual fiscal year maturities of the Term Loan Facility are as follows (in thousands):

<u>Fiscal Year</u>	
2013	\$ 5,000
2014	7,500
2015	10,000
2016	10,000
2017	67,500
Total	<u>\$ 100,000</u>

*Interest Rate Swap Agreement*

In connection with the \$100 million borrowed under the Term Loan Facility, the Company entered into an interest rate swap agreement as a hedge against the LIBOR portion of such variable interest payments. Under the terms of the swap agreement, the Company effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate of 0.764% through the maturity date. As of December 29, 2012, the combined interest rate on the Term Loan Facility (which includes an applicable margin) was 2.514%. See Note 5, *Derivative Financial Instruments*, for additional information.

**12. Stockholders' Equity***Common Stock*

The Company issued 1.6 million shares of common stock during fiscal 2012, net of 0.3 million shares withheld to satisfy employee tax obligations for the vesting of certain stock grants made under the Company's stock incentive plans.

*Share Repurchase Programs*

In January 2013, the Board of Directors authorized a share repurchase program to repurchase up to \$50 million of the Company's common stock through January 2014. In April 2012, the Board of Directors authorized a share repurchase program to repurchase up to \$100 million of the Company's common stock through January 2013. In October 2011, the Board of Directors adopted a share repurchase program to repurchase up to \$50 million of the Company's common stock through April 2012. The Company's repurchase program announced in July 2010, authorized the repurchase of up to \$150 million of the Company's common stock through 2011, and was completed in August 2011. The Company's repurchase program announced in October 2009 authorized the repurchase of up to \$150 million of the Company's common stock through 2010, and was terminated upon the adoption of the July 2010 program. These programs allow 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. The Company repurchased 1.7 million shares, 3.2 million shares and 3.3 million shares of its common stock for \$62.0 million, \$110.1 million and \$140.3 million during fiscal 2012, 2011 and 2010, respectively.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

## 12. Stockholders' Equity (Continued)

### *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 2, 2010	\$ (2,919)	\$ (1,437)	\$ (4,356)
Period change	442	266	708
Balance at January 1, 2011	(2,477)	(1,171)	(3,648)
Period change	1,178	3	1,181
Balance at December 31, 2011	(1,299)	(1,168)	(2,467)
Period change	871	650	1,521
Balance at December 29, 2012	<u>\$ (428)</u>	<u>\$ (518)</u>	<u>\$ (946)</u>

### *Income Tax Allocated to the Components of Other Comprehensive Income*

The income tax effects of the components of other comprehensive income were as follows (in thousands):

	December 29, 2012	Year ended December 31, 2011	January 1, 2011
<b>Income tax (expense) benefit on:</b>			
Net changes to available-for-sale securities:			
Unrealized gains arising during the period	\$ (350)	\$ (1)	\$ (143)
Net changes to cash flow hedges:			
Unrealized losses arising during the period	335	148	924
Reclassification for losses included in net income	(803)	(783)	(1,162)
Other comprehensive income	<u>\$ (818)</u>	<u>\$ (636)</u>	<u>\$ (381)</u>

## 13. 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 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, on April 30, 2010.

### *2009 Stock Incentive Plan*

Under the 2009 Plan, the following may be granted: stock options, stock appreciation rights, performance shares, performance stock units, restricted stock units (RSUs), restricted stock awards



**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**13. Stock-Based Compensation (Continued)**

(RSAs), performance-based awards and other awards (collectively, all such grants are referred to as "awards"). Awards of stock options and stock appreciation rights each deduct one share from the 2009 Plan shares available for issuance for each share granted, and full value awards (awards other than for which the participant is required to pay at least the fair market value of the underlying shares on the date of grant) deduct 1.55 shares from the 2009 Plan shares available for issuance for each share granted. Awards granted under the 2009 Plan generally contain vesting provisions ranging from three to four years. The exercise price of stock options offered under the 2009 Plan may not be less than 100% of the fair market value of a share of our common stock on the date of grant. To the extent awards granted under the 2009 Plan terminate, expire or lapse for any reason, or are settled in cash, shares subject to such awards will again be available for grant.

*2000 Stock Incentive Plan*

In fiscal 2000, the Company's Board of Directors and stockholders approved the 2000 Plan. The 2000 Plan contains programs for (i) the discretionary granting of stock options to employees, non-employee board members and consultants for the purchase of shares of the Company's common stock, (ii) the discretionary issuance of common stock directly (as granted under direct issuance shares in RSAs and RSUs), (iii) the granting of special below-market stock options to executive officers and other highly compensated employees of the Company for which the exercise price can be paid using payroll deductions and (iv) the automatic issuance of stock options to non-employee board members. The discretionary issuance of common stock, RSUs and stock options generally contain vesting provisions ranging from three to eight years. If permitted by the Company, stock options can be exercised immediately and, similar to the direct issuance shares, are subject to repurchase rights which generally lapse in accordance with the vesting schedule. The repurchase rights provide that upon certain defined events, the Company can repurchase unvested shares at the price paid per share. The term of each stock option is no more than ten years from the date of grant.

*Stock Grants and Modifications*

The Company granted to its employees 0.8 million shares of full value awards and no stock options from the 2009 Plan during fiscal 2012, 2011 and 2010.

The Company recorded \$1.9 million in selling, general and administrative expense during fiscal 2012 in connection with modifications to certain stock awards. The Company accelerated the vesting of certain RSUs and Market Stock Units (MSUs) and extended the exercise period of stock options pursuant to a separation agreement between the Company and its former Chief Executive Officer (CEO). This arrangement is discussed further in Note 16, *Separation Agreement*. There were no other significant modifications made to any stock grants during fiscal 2012, 2011 or 2010.

Included in the full value awards granted under the 2009 Plan in fiscal 2012 and fiscal 2011 were a total of 110 thousand and 55 thousand market-based stock awards, respectively. The awards, also known as MSUs, provide the rights to acquire a number of shares of common stock for no cash consideration based upon achievement of specified levels of market conditions. The requisite service period for these MSUs is also the vesting period, which is generally three years. The performance criteria of the MSUs measure the difference between the total stockholders' return of the Company against that of the Philadelphia Semiconductor Sector Total Return Index.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**13. Stock-Based Compensation (Continued)**

*2009 Employee Stock Purchase Plan*

The rights to purchase common stock granted under the 2009 Purchase Plan are intended to be treated as either (i) purchase rights granted under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Internal Revenue Code (the "423(b) Plan"), or (ii) purchase rights granted under an employee stock purchase plan that is not subject to the terms and conditions of Section 423(b) of the Internal Revenue Code (the "Non-423(b) Plan"). The Company will retain the discretion to grant purchase rights under either the 423(b) Plan or the Non-423(b) Plan. Eligible employees may purchase a limited number of shares of the Company's common stock at no less than 85% of the fair market value of a share of common stock at prescribed purchase intervals during an offering period. Each offering period will be comprised of a series of one or more successive and/or overlapping purchase intervals and has a maximum term of 24 months. During fiscal 2012, 2011 and 2010, the Company issued 181 thousand, 169 thousand and 75 thousand shares, respectively, under the 2009 Purchase Plan to its employees. The weighted-average fair value for purchase rights granted under the 2009 Purchase Plan for fiscal 2012 was \$11.02 per share.

*Employee Stock Purchase Plan*

The Purchase Plan was adopted by the Company's Board of Directors in fiscal 2000. Eligible employees could purchase a limited number of shares of the Company's common stock at 85% of the market value during a series of offering periods. Each offering period is divided into semi-annual purchase intervals and has a maximum term of 24 months. During fiscal 2012, 2011 and 2010, the Company issued zero, zero and 79 thousand shares, respectively, under the Purchase Plan to its employees. There were no purchase rights granted under the Purchase Plan for fiscal 2012.

*Accounting for Stock-Based Compensation*

Stock-based compensation costs are 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 RSUs equal their intrinsic value on the date of grant. The fair values of market-based performance awards generally are estimated using a Monte Carlo simulation based on the date of grant.

The Black-Scholes valuation calculation requires the Company to estimate key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. Expected stock price volatility is based upon a combination of both historical volatility and implied volatility derived from traded options on the Company's stock in the marketplace. Expected term is derived from an analysis of historical exercises and remaining contractual life of options. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has never paid cash dividends and does not currently intend to pay cash dividends, thus it has assumed a 0% dividend yield.

The Monte Carlo simulation used to calculate the fair value of the MSUs simulates the present value of the potential outcomes of future stock prices of the Company and the Philadelphia Semiconductor Sector Total Return Index over the requisite service period. The projection of stock prices are based on the risk-free rate of return, the volatilities of the stock price of the Company and the Index, and the correlation of the stock price of the Company with the Index.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**13. Stock-Based Compensation (Continued)**

The Company must estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock-based compensation expense to be recognized in future periods.

The fair values of stock options and RSUs are amortized as compensation expense on a straight-line basis over the vesting period of the grants. The fair values of RSAs are fully expensed in the period of grant, when shares are immediately issued with no vesting restrictions. The fair values of MSUs are amortized as compensation expense on a straight-line basis over the performance and service periods of the grants. Compensation expense recognized is shown in the operating activities section of the Consolidated Statements of Cash Flows.

The fair values estimated from the Black-Scholes option-pricing model were calculated using the following assumptions:

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
<i>2009 Employee Stock Purchase Plan:</i>			
Expected volatility	38%	27%	32%
Risk-free interest rate %	0.2%	0.2%	0.4%
Expected term (in months)	15	11	15
Dividend yield	—	—	—

A summary of stock-based compensation activity with respect to fiscal 2012 follows:

Stock Options	Shares (000s)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (000s)
Outstanding at December 31, 2011	2,485	\$ 34.44		
Granted	—	\$ —		
Exercised	(726)	\$ 29.96		
Cancelled or expired	(63)	\$ 47.78		
Outstanding at December 29, 2012	1,696	\$ 35.86	2.6	\$ 12,206
Vested at December 29, 2012 and expected to vest	1,696	\$ 35.86	2.6	\$ 12,206
Exercisable at December 29, 2012	1,696	\$ 35.86	2.6	\$ 12,206

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**13. Stock-Based Compensation (Continued)**

<u>RSAs, RSUs and MSUs</u>	<u>Shares (000s)</u>	<u>Weighted- Average Purchase Price</u>	<u>Weighted-Average Remaining Vesting Term (In Years)</u>	<u>Aggregate Intrinsic Value (000s)</u>
Outstanding at December 31, 2011	1,989	\$ —		
Granted	778	\$ —		
Issued	(934)	\$ —		
Cancelled or expired	(125)	\$ —		
Outstanding at December 29, 2012	1,708	\$ —	2.1	\$ 70,640
Outstanding at December 29, 2012 and expected to vest	1,708	\$ —	2.1	\$ 70,640

The following summarizes the Company's weighted average fair value at the date of grant:

	<u>Year Ended</u>		
	<u>December 29, 2012</u>	<u>December 31, 2011</u>	<u>January 1, 2011</u>
Per grant of RSAs, RSUs and MSUs	\$ 43.82	\$ 44.73	\$ 44.88

The following summarizes the Company's stock-based payment and stock option values (in thousands):

	<u>Year Ended</u>		
	<u>December 29, 2012</u>	<u>December 31, 2011</u>	<u>January 1, 2011</u>
Intrinsic value of stock options exercised	\$ 9,064	\$ 8,622	\$ 14,087
Intrinsic value of RSAs and RSUs that vested	\$ 40,105	\$ 38,769	\$ 32,109
Grant date fair value of RSAs and RSUs that vested	\$ 31,215	\$ 29,488	\$ 25,398

The Company had approximately \$41.4 million of total unrecognized compensation costs related to stock options and stock awards at December 29, 2012 that are expected to be recognized over a weighted-average period of 2.1 years. There were no significant stock-based compensation costs capitalized into assets in any of the periods presented.

The Company received cash of \$15.1 million for the issuance of common stock, net of shares withheld for taxes, during fiscal 2012. The Company issues shares from the shares reserved under its stock plans upon the exercise of stock options, issuance of RSAs, vesting of RSUs and MSUs, and purchases through employee stock purchase plans. The Company does not currently expect to repurchase shares from any source to satisfy such obligation.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**13. Stock-Based Compensation (Continued)**

The following table presents details of stock-based compensation costs recognized in the Consolidated Statements of Income (in thousands):

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Cost of revenues	\$ 1,206	\$ 1,319	\$ 1,435
Research and development	12,602	14,872	17,017
Selling, general and administrative	17,368	19,924	21,872
	31,176	36,115	40,324
Income tax benefit	4,911	3,957	5,462
	<u>\$ 26,265</u>	<u>\$ 32,158</u>	<u>\$ 34,862</u>

As of December 29, 2012, the Company had reserved shares of common stock for future issuance as follows (in thousands):

2000 Stock Incentive Plan	1,696
2009 Stock Incentive Plan	5,773
2009 Employee Stock Purchase Plan	826
Total shares reserved	<u>8,295</u>

**14. Employee Benefit Plan**

The Company maintains a defined contribution or 401(k) Plan for its qualified U.S. employees. Participants may contribute a percentage of their compensation on a pre-tax basis, subject to a maximum annual contribution imposed by the Internal Revenue Code. The Company may make discretionary matching contributions as well as discretionary profit-sharing contributions to the 401(k) Plan. The Company contributed \$2.9 million, \$2.7 million and \$2.6 million to the 401(k) Plan during fiscal 2012, 2011 and 2010, respectively.

**15. Commitments and Contingencies**

*Operating Leases*

The Company leases certain facilities under operating lease agreements that expire at various dates through 2022. Some of these arrangements contain renewal options and require the Company to pay taxes, insurance and maintenance costs.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**15. Commitments and Contingencies (Continued)**

Rent expense under operating leases was \$4.4 million, \$4.5 million and \$5.0 million for fiscal 2012, 2011 and 2010, respectively. The minimum annual future rentals under the terms of these leases as of December 29, 2012 are as follows (in thousands):

<u>Fiscal Year</u>	
2013	\$ 3,523
2014	2,521
2015	1,868
2016	1,866
2017	1,665
Thereafter	2,035
Total minimum lease payments	<u>\$ 13,478</u>

The Company previously leased facilities for its headquarters in Austin, Texas. In fiscal 2012, the Company purchased the facilities under options available in the leases. See Note 9, *Acquisitions*, for additional information.

*Litigation**Patent Litigation*

On May 13, 2012, MaxLinear, Inc., a Delaware corporation, filed a lawsuit against the Company in the United States District Court in the Southern District of California, San Diego Division, seeking a declaratory judgment that MaxLinear products do not infringe 19 Silicon Laboratories' patents and that such patents are invalid. The Company responded and filed claims accusing MaxLinear of infringing 6 Silicon Laboratories' patents, including 5 of the named 19 Company patents and an additional patent. On December 12, 2012, the Court granted a request by the Company to add additional allegations of patent infringement to the case, such that the Company is presently accusing MaxLinear of infringing 9 patents in this litigation. The Company has asked the Court for a permanent injunction stopping the sale of all allegedly infringing MaxLinear products.

On July 30, 2012, the Company further filed a complaint for declaratory judgment against MaxLinear in United States District Court for the Western District of Texas, Austin Division. The Company is seeking an order that MaxLinear's United States Patent Nos. 7,362,178, 7,778,613 and 8,198,940 are invalid, and that the Company's products do not infringe such patents.

On July 17, 2012, the Company additionally filed a lawsuit against MaxLinear in the United States District Court in the Southern District of California, San Diego Division, alleging infringement of an additional Company patent, U.S. Patent 7,035,607 related to RF design. On August 6, 2012, MaxLinear counterclaimed alleging infringement of the three patents in the Texas litigation by a variety of the Company's RF and mixed signal products.

At this time, the Company cannot predict the outcome of these matters or the resulting financial impact to it, if any.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**15. Commitments and Contingencies (Continued)***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 statements.

**16. Separation Agreement**

On March 1, 2012, the Company entered into a separation agreement with its former CEO, Necip Sayiner. Pursuant to the agreement, Mr. Sayiner agreed to continue to serve as CEO through April 18, 2012 and as a non-executive advisor through July 19, 2012. Upon his separation from the Company and execution of a release of claims, Mr. Sayiner received a severance package consisting of (a) accelerated vesting of certain RSUs and MSUs and the extension of the exercise period of certain stock options, (b) cash payments and (c) other benefits. The separation agreement resulted in a total expense of approximately \$3.2 million, which was recognized over the service period in selling, general and administrative expenses.

**17. Income Taxes**

Significant components of the provision for income taxes are as follows (in thousands):

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Current:			
Domestic	\$ 21,084	\$ 14,468	\$ 10,824
International	(3,009)	2,845	4,145
Total Current	18,075	17,313	14,969
Deferred:			
Domestic	5,444	(70)	(192)
International	(719)	(375)	(360)
Total Deferred	4,725	(445)	(552)
	<u>\$ 22,800</u>	<u>\$ 16,868</u>	<u>\$ 14,417</u>

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**17. Income Taxes (Continued)**

The Company's provision for income taxes differs from the expected tax expense amount computed by applying the statutory federal income tax rate to income before income taxes as a result of the following:

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Federal statutory rate	35.0%	35.0%	35.0%
Foreign tax rate benefit	(11.8)	(11.0)	(15.6)
Research and development tax credits	(0.5)	(8.5)	(6.1)
Release of prior year unrecognized tax benefits	(8.4)	—	(3.6)
Intercompany technology license	11.8	10.4	4.4
Excess officer compensation	1.0	3.2	2.0
Nondeductible acquisition costs	—	2.9	—
Other	(0.7)	0.2	0.3
	<u>26.4%</u>	<u>32.2%</u>	<u>16.4%</u>

The effective tax rate for fiscal 2012 decreased from the prior period, primarily due to the release of prior year unrecognized tax benefits that were determined to be effectively settled during the current period, along with one-time nondeductible costs associated with the acquisition of Spectra Linear in fiscal 2011. The impact of these items was partially offset by the non-renewal of the federal research and development tax credit in the current period.

The American Taxpayer Relief Act of 2012 (the "Act") was enacted on January 2, 2013. The Act retroactively reinstates the federal research and development credit from January 1, 2012, through December 31, 2013. The effect of the change in the tax law related to fiscal 2012 is estimated to be between \$3.5 million and \$4.0 million, which will be recognized as a benefit to income tax expense in the first quarter of fiscal 2013, the quarter in which the law was enacted.

The effective tax rate for fiscal 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, a decrease in the foreign tax rate benefit, and a release of prior year unrecognized tax benefits in fiscal 2010 with none in fiscal 2011. These changes were partially offset by an increase in the research and development tax credit in fiscal 2011.

Income before income taxes included approximately \$5.9 million, \$4.1 million and \$40.1 million related to foreign operations in fiscal 2012, 2011 and 2010, respectively. Foreign income before income taxes increased from fiscal 2011 to fiscal 2012 predominantly due to increases in product sales, offset in part by an increase in the intercompany technology license payments made by a foreign subsidiary. Foreign income before income taxes decreased from fiscal 2010 to fiscal 2011 predominantly due to changes in product mix, an increase in research and development expense and an increase in the intercompany technology license payments made by a foreign subsidiary.

Deferred tax assets and liabilities are recorded for the estimated tax impact of temporary differences between the tax basis and book basis of assets and liabilities. A valuation allowance is



**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**17. Income Taxes (Continued)**

established against a deferred tax asset when it is more likely than not that the deferred tax asset will not be realized. The Company has provided a valuation allowance of \$2.1 million in fiscal 2012 related to certain state loss and research and development tax credit carryforwards acquired in fiscal 2012. The Company has determined that it is more likely than not that the carryforwards will expire or go unutilized because the Company no longer expects to have a significant apportionment of income to the jurisdiction in which the attributes were created. No valuation allowance has been provided against other deferred tax assets for fiscal 2012 or 2011. Management believes that the Company's results of future operations will generate sufficient taxable income such that it is more likely than not that the remaining deferred tax assets will be realized.

Significant components of the Company's deferred taxes as of December 29, 2012 and December 31, 2011 are as follows (in thousands):

	December 29, 2012	December 31, 2011
Deferred tax assets:		
Net operating loss carryforwards	\$ 35,847	\$ 21,479
Research and development tax credit carryforwards	8,447	5,556
Stock-based compensation	8,133	9,963
Depreciation and amortization	—	33,334
Capitalized research and development	9,708	1,428
Deferred income on shipments to distributors	3,933	3,895
Accrued liabilities and other	7,503	7,305
	73,571	82,960
Less: Valuation allowance	(2,114)	—
	71,457	82,960
Deferred tax liabilities:		
Acquired intangibles	28,653	18,562
Long term obligations for tax purposes	—	33,023
Depreciation and amortization	1,076	—
Prepaid expenses and other	1,447	913
	31,176	52,498
Net deferred tax assets	\$ 40,281	\$ 30,462

During fiscal 2012, the Company recorded net deferred tax assets of approximately \$15.5 million, net of the valuation allowance of \$2.1 million discussed above, related to the acquisition of Ember due to differences between book and tax bases of acquired assets and assumed liabilities.

As of December 29, 2012, the Company had federal net operating loss and research and development credit carryforwards of approximately \$90.8 million and \$2.0 million, respectively, as a result of the Cygnal Integrated Products, Silicon Clocks, Spectra Linear and Ember acquisitions. These carryforwards expire in fiscal years 2019 through 2032. Recognition of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**17. Income Taxes (Continued)**

The Company also had state loss and research and development credit carryforwards of approximately \$78.9 million and \$9.9 million, respectively. A portion of these loss and credit carryforwards was generated by the Company and a portion was acquired through the Integration Associates, Silicon Clocks, Spectra Linear and Ember acquisitions. Certain of these carryforwards expire in fiscal years 2013 through 2032 and others do not expire. Recognition of some of these loss and credit carryforwards is subject to an annual limit, which may cause them to expire before they are used.

At the end of fiscal 2012, undistributed earnings of the Company's foreign subsidiaries of approximately \$279.8 million are considered permanently reinvested. Accordingly, no provision for U.S. federal and state income taxes has been made. Determination of the amount of the unrecognized deferred tax liability on these unremitted earnings is not practicable.

The Company's operations in Singapore are subject to reduced tax rates through 2019, as long as certain conditions are met. The income tax benefit (expense) from the reduced Singapore tax rate reflected in earnings was approximately \$(13.3) million (representing \$(0.31) per diluted share) in fiscal 2012, approximately \$2.5 million (representing \$0.06 per diluted share) in fiscal 2011 and approximately \$6.1 million (representing \$0.13 per diluted share) in fiscal 2010. The impact of the reduced Singapore tax rate in fiscal 2012 reflects the recognition of prior year unrecognized tax benefits.

The following table reflects changes in the unrecognized tax benefits (in thousands):

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Beginning balance	\$ 10,943	\$ 10,789	\$ 12,160
Additions based on tax positions related to current year	1,818	757	1,742
Reductions for tax positions related to prior years	(8,397)	(603)	(3,113)
Ending balance	<u>\$ 4,364</u>	<u>\$ 10,943</u>	<u>\$ 10,789</u>

As of December 29, 2012, December 31, 2011 and January 1, 2011, the Company had gross unrecognized tax benefits of \$4.4 million, \$10.9 million and \$10.8 million, respectively, of which \$4.1 million, \$9.9 million and \$9.7 million, respectively, would affect the effective tax rate if recognized. During fiscal 2012, the Company had gross increases of \$1.8 million to its current year unrecognized tax benefits, as well as a gross decrease of \$8.4 million to its prior year unrecognized tax benefits related to an uncertain tax position that was determined to be effectively settled. A portion of these amounts represents foreign currency remeasurement adjustments and was recognized in other income (expense), net. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company did not recognize any interest in the provision for income taxes in fiscal 2012, 2011 and 2010. In addition, the Company had decreases of interest, net of tax, of \$0.1 million in fiscal 2010. The Company has not made an accrual for the payment of interest related to unrecognized tax positions at the end of fiscal 2012, 2011 and 2010.

**Silicon Laboratories Inc.**  
**Notes to Consolidated Financial Statements**  
**December 29, 2012 (Continued)**

**17. Income Taxes (Continued)**

The Company believes it is reasonably possible that the gross unrecognized tax benefits will decrease by approximately \$1.3 million in the next 12 months due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return.

The tax years 2006 through 2012 remain open to examination by the major taxing jurisdictions to which the Company is subject. The Company's 2010 federal income tax return is under examination by the U.S. Internal Revenue Service. Although the outcome of tax audits is always uncertain, the Company believes that the results of the examination will not materially affect its financial position or results of operations. The Company is not currently under audit in any other major taxing jurisdiction.

**18. Segment Information**

The Company has one operating segment, mixed-signal analog intensive ICs, consisting of numerous product areas. The Company's chief operating decision maker is considered to be its Chief Executive Officer. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the operating segment level.

Revenue is attributed to a geographic area based on the shipped-to location. The following summarizes the Company's revenue by geographic area (in thousands):

	Year Ended		
	December 29, 2012	December 31, 2011	January 1, 2011
United States	\$ 64,856	\$ 67,432	\$ 69,753
China	219,400	152,533	137,703
Taiwan	64,150	59,208	76,991
South Korea	57,910	70,252	65,409
Japan	31,315	50,270	34,031
Rest of world	125,663	91,930	109,454
Total	<u>\$ 563,294</u>	<u>\$ 491,625</u>	<u>\$ 493,341</u>

The following summarizes the Company's property and equipment, net by geographic area (in thousands):

	December 29, 2012	December 31, 2011
United States	\$ 127,716	\$ 17,293
Singapore	6,097	6,220
Rest of world	1,458	1,628
Total	<u>\$ 135,271</u>	<u>\$ 25,141</u>

### Supplementary Financial Information (Unaudited)

Quarterly financial information for fiscal 2012 and 2011 is as follows. All quarterly periods reported here had 13 weeks (in thousands, except per share amounts):

	Fiscal 2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 152,461	\$ 149,461	\$ 135,670	\$ 125,702
Gross margin	93,626	86,493	82,802	75,096
Operating income	25,302	27,230	16,379	16,764
Net income	\$ 18,695	\$ 10,024	\$ 20,509	\$ 14,320
Earnings per share:				
Basic	\$ 0.45	\$ 0.24	\$ 0.48	\$ 0.34
Diluted	\$ 0.44	\$ 0.24	\$ 0.47	\$ 0.33

	Fiscal 2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 126,692	\$ 119,100	\$ 126,197	\$ 119,636
Gross margin	77,179	72,897	76,212	72,158
Operating income	15,223	13,928	15,984	4,939
Net income (loss)	\$ 12,805	\$ 11,255	\$ 13,372	\$ (1,960)
Earnings (loss) per share:				
Basic	\$ 0.31	\$ 0.26	\$ 0.30	\$ (0.04)
Diluted	\$ 0.29	\$ 0.26	\$ 0.29	\$ (0.04)

