

SILICON LABORATORIES INC
Form 10-Q
October 31, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

or

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)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 19, 2011, 41,850,712 shares of common stock of Silicon Laboratories Inc. were outstanding.

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	Cautionary Statement

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-Q (as well as documents incorporated herein by reference) may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include declarations regarding the intent, belief or current expectations of Silicon Laboratories Inc. and its management and may be signified by the words believe, estimate, expect, intend, anticipate, plan, project, will or similar language. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed under Risk Factors and elsewhere in this report. Silicon Laboratories disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

	October 1, 2011	January 1, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 108,183	\$ 138,567
Short-term investments	174,915	227,295
Accounts receivable, net of allowance for doubtful accounts of \$733 at October 1, 2011 and \$772 at January 1, 2011	58,370	45,030
Inventories	38,403	39,450
Deferred income taxes	10,617	9,140
Prepaid expenses and other current assets	36,280	34,447
Total current assets	426,768	493,929
Long-term investments	17,840	17,500
Property and equipment, net	27,373	29,945
Goodwill	115,489	112,296
Other intangible assets, net	63,787	53,242
Other assets, net	26,088	20,746
Total assets	\$ 677,345	\$ 727,658
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 25,720	\$ 24,433
Accrued expenses	31,842	25,604
Deferred income on shipments to distributors	28,372	26,127
Income taxes	809	3,692
Total current liabilities	86,743	79,856
Long-term obligations and other liabilities	19,280	22,372
Total liabilities	106,023	102,228
Commitments and contingencies		
Stockholders equity:		
Preferred stock \$0.0001 par value; 10,000 shares authorized; no shares issued and outstanding		
Common stock \$0.0001 par value; 250,000 shares authorized; 41,839 and 43,933 shares issued and outstanding at October 1, 2011 and January 1, 2011, respectively	4	4
Additional paid-in capital		49,947
Retained earnings	573,848	579,127
Accumulated other comprehensive loss	(2,530)	(3,648)
Total stockholders equity	571,322	625,430
Total liabilities and stockholders equity	\$ 677,345	\$ 727,658

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

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

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

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

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

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

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the condensed consolidated financial position of Silicon Laboratories Inc. and its subsidiaries (collectively, the Company) at October 1, 2011 and January 1, 2011, the condensed consolidated results of its operations for the three and nine months ended October 1, 2011 and October 2, 2010, and the Condensed Consolidated Statements of Cash Flows for the nine months ended October 1, 2011 and October 2, 2010. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three and nine months ended October 1, 2011 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Condensed Consolidated Financial Statements do not include certain footnotes and financial presentations normally required under U.S. generally accepted accounting principles (GAAP). Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended January 1, 2011, included in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC) on February 10, 2011.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2011 will have 52 weeks and fiscal 2010 had 52 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks.

Reclassifications

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

Revenue Recognition

Revenues are generated almost exclusively by sales of the Company's integrated circuits (ICs). The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed

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or determinable, and 4) collectibility is reasonably assured. Generally, revenue from product sales to direct customers and contract manufacturers is recognized upon shipment.

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

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

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

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

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

2. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net income	\$ 11,255	\$ 18,233	\$ 22,667	\$ 60,359

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

3. Cash, Cash Equivalents and Investments

The Company's cash equivalents and short-term investments as of October 1, 2011 consisted of corporate bonds, money market funds, municipal bonds, variable-rate demand notes, U.S. government agency bonds, U.S. Treasury bills, international government bonds, certificates of deposit, asset-backed securities and commercial paper. The Company's long-term investments consist of auction-rate securities. Early in fiscal 2008, auctions for many of the Company's auction-rate securities failed because sell orders exceeded buy orders. As of October 1, 2011, the Company held \$19.3 million par value auction-rate securities, all of which have experienced failed auctions. The underlying assets of the securities consisted of student loans and municipal bonds, of which \$17.3 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of October 1, 2011, \$17.3 million of the auction-rate securities had credit ratings of AAA and \$2.0 million had a credit rating of A. These securities have contractual maturity dates ranging from 2029 to 2046 and with current yields of 0.3% to 3.1% per year at October 1, 2011. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. The Company is unable to predict if these funds will become available before their maturity dates.

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities. The Company does not intend to sell, and believes it is not more likely than not that it will be required to sell, its auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value. The Company believes that the credit ratings and credit support of the security issuers indicate that they have the ability to settle the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of October 1, 2011.

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

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

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

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

As of October 1, 2011	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	\$ 34,577	\$ (282)	\$ 17,840	\$ (1,435)	\$ 34,577	\$ (282)
Auction rate securities					17,840	(1,435)
Municipal bonds	6,181	(5)			6,181	(5)
U.S. government agency	5,003	(1)			5,003	(1)
Certificates of deposit	1,569	(1)			1,569	(1)
Asset-backed securities	1,244	(1)			1,244	(1)
	\$ 48,574	\$ (290)	\$ 17,840	\$ (1,435)	\$ 66,414	\$ (1,725)

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

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

The gross unrealized losses as of October 1, 2011 and January 1, 2011 were due primarily to the illiquidity of the Company's auction-rate securities and, to a lesser extent, to changes in market interest rates.

The following summarizes the contractual underlying maturities of the Company's available-for-sale investments at October 1, 2011 (in thousands):

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

4. Derivative Financial Instruments

The Company is exposed to interest rate fluctuations in the normal course of its business, including through its corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. The Company has entered into interest rate swap agreements with notional values of \$44.3 million and \$50.1 million and, effectively, fixed the rent payment amounts on these leases through March 2011 and March 2013, respectively. The Company's swap agreement with a notional value of \$44.3 million matured in March 2011 and was not renewed. The Company's objective in entering into such swap agreements was to offset increases and decreases in expenses resulting from changes in interest rates with gains and losses on the derivative contracts, thereby reducing volatility of earnings. The Company does not use derivative contracts for speculative purposes.

The interest rate swap agreements are designated and qualify as cash flow hedges. The effective portion of the gain or loss on interest rate swaps is recorded in accumulated other comprehensive loss as a separate component of stockholders' equity and is subsequently recognized in earnings

when the hedged exposure affects earnings. Cash flows from derivatives are classified as cash flows from operating activities in the Consolidated Statement of Cash Flows.

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

The Company estimates the fair values of derivatives based on quoted prices and market observable data of similar instruments. If the lease agreements or the interest rate swap agreements are terminated prior to maturity, the fair value of the interest rate swaps recorded in accumulated other comprehensive loss may be recognized in the Consolidated Statement of Income based on an assessment of the agreements at the time of termination. The Company did not discontinue any cash flow hedges in any of the periods presented.

The Company measures the effectiveness of its cash flow hedges by comparing the change in fair value of the hedged item with the change in fair value of the interest rate swap. The Company recognizes ineffective portions of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Statement of Income. As of October 1, 2011, no portion of the gains or losses from the Company's hedging instrument was excluded from the assessment of effectiveness. There was no hedge ineffectiveness for any of the periods presented.

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

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

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

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

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company's interest rate swap agreement contains provisions that require it to maintain unencumbered cash and highly-rated short-term investments of at least \$150 million. If the Company's unencumbered cash and highly-rated short-term investments are less than \$150 million, it would be required to post collateral with the counterparty in the amount of the fair value of the interest rate swap agreements in net liability positions. The Company's interest rate swap was in a net liability position at October 1, 2011. No collateral has been posted with the counterparty as of October 1, 2011.

5. Fair Value of Financial Instruments

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

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable for the asset or liability and are developed based on the best information available in the circumstances, which might include the Company's own data.

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

The following summarizes the valuation of the Company's financial instruments (in thousands). The tables do not include either cash on hand or assets and liabilities that are measured at historical cost or any basis other than fair value.

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at January 1, 2011 Using		Significant Unobservable Inputs (Level 3)	Total
		Significant Other Observable Inputs (Level 2) (1)			
Assets:					