

SILICON LABORATORIES INC
Form 10-K
February 10, 2011

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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 January 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)

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

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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 (July 2, 2010) was \$1,685,119,902 (assuming, for this purpose, that only directors and officers are deemed affiliates).

There were 44,041,521 shares of the registrant's common stock issued and outstanding as of January 31, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2010 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.

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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 a broad range of applications in a variety of markets, including communications, consumer, industrial, automotive, medical and power management.

Our world-class, mixed-signal ICs use standard complementary metal oxide semiconductor (CMOS) technology to dramatically reduce the cost, size and system power requirements of devices that our customers sell to their end-user customers. 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

Communications, computing and consumer electronics continue to drive semiconductor consumption. Growth in these markets has been driven primarily by the increasing pervasiveness of Internet usage, development of new communications technologies and the availability of improved communication services at lower costs over high-speed, highly reliable networks. This demand has fueled tremendous growth in the number of electronic devices. Demand for functionality in mobile, handheld devices such as mobile phones, portable media players and personal navigation devices, has increased as manufacturers attempt to further differentiate their products. Consumer and enterprise demand for Internet connectivity, the availability of alternative telephony services and the transition to digital video are also key trends driving demand for innovative, mixed-signal ICs.

All of these applications are characterized by an intersection 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 ICs with greater functionality, smaller size and lower power requirements at a reduced cost and shorter time-to-market.

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Products

We provide analog-intensive, mixed-signal ICs for use in a variety of electronic products in a broad range of applications including portable devices, satellite set top boxes, AM/FM radios and other consumer electronics, networking equipment, test and measurement equipment, industrial monitoring and control, central office telephone equipment and customer premises equipment. Our products integrate complex mixed-signal functions that are frequently performed by numerous discrete components in competing products into single chips or chipsets. 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), wireless receivers, isolation devices and human interface sensors;

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

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

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

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

Product Areas and Description

Applications

Broad-based Products

Microcontrollers

Our C8051F family of 8-bit mixed-signal microcontrollers integrates intelligent data capture in the form of high-resolution data converters, a traditional MCU computing function, flash memory and a highly programmable set of communication interfaces in a single system on a chip. The combination of configurable high-performance analog, up to 100 Million Instructions Per Second (MIPS), 8051 core and in-system field programmability provides the user with design flexibility, improved time-to-market, superior system performance and greater end product differentiation. These products are designed for use in a large variety of end-markets, including the automotive, communications, consumer, industrial, medical and power management markets.

Industrial automation and control

Automotive sensors and controls

Medical instrumentation

Electronic test and measurement equipment

Consumer electronics

Computer peripherals

White goods

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Product Areas and Description

Applications

Precision Clocks and Oscillators

Leveraging our DSPLL® technology to offer frequency agile, extremely low jitter clock and oscillator products, these 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.

- Networking equipment
- Telecommunications
- Wireless base stations
- Test and measurement equipment
- HDTV video
- High-speed data acquisition
- SONET/SDH line cards

EZRadio® Short-Range Wireless Transceivers

Our EZRadio family of fully integrated, low power, low data rate and low cost short range wireless ICs are designed to meet the needs of customers developing applications requiring a secure, point to point transmission such as industrial monitoring and control. These products are still in the early stages of customer adoption

- Storage area networks
- Remote keyless entry
- Home security monitors
- Automated Meter Readers

Digital Isolators and Related Products

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.

- Remote controls
- Switch mode power supplies
- Isolated analog data acquisition
- Industrial networking
- Motor control
- Isolated DC-DC supplies

Human Interface Sensors

- Electronic ballasts for lighting

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Our QuickSense family of human interface products includes touch sensors, proximity sensors and ambient light 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.

Smartphones and handhelds

Industrial controls

Toys and consumer electronics

Monitors and lavatory controls

Broadcast Products

Broadcast Radio Receivers and Transmitters

Our FM and AM receivers deliver the entire tuner from antenna input to audio output in a single chip. Ideal for portable audio applications, 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. The AM/FM receivers enable AM and/or FM radio in virtually any device and the transmitters allow customers to cost effectively add wireless AM/FM audio playback capability to any portable media device.

Mobile phones

Stand-alone AM/FM radios

Portable audio devices

MP3/digital media players

Navigation/GPS devices

Satellite radios

Home stereos

Automotive infotainment systems

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Product Areas and Description

Video tuners and demodulators

Our complete, globally-compliant hybrid TV tuner with analog TV demodulator in a single CMOS IC leverages our proven digital low-IF architecture and exceeds 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, DVB-C and fixed reception DVB-H in a single chip and are ideal for equipment receiving digital terrestrial and/or cable services.

Access Products

ISModem® Embedded Modems

The ISModem 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 like set-top boxes, Personal Video Recorders (PVRs) and fax capability in multi-function printers.

ProSLIC® Subscriber Line Interface Circuits

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.

Applications

- Integrated digital televisions (iDTV)
- Free-to-Air (FtA) or pay-TV set-top box receivers
- PC-TV applications
- DVD/HDD personal video recorders
- Set-top and digital cable boxes
- Industrial monitoring
- Postage meters
- Security systems
- Remote medical monitoring
- Gaming consoles
- PVRs
- Point of sale (POS) terminals
- Fax machines and multi-function printers
- Wireless local loop remote access systems
- Voice over broadband modems and terminal adapters
- VoIP residential gateways
- PBXs

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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) cost and improved performance and reliability. Our solutions also offer an integration level that enables functionality not available with competing solutions.

Wired long loop and central office systems

Wireless access points (WAP)

VoIP phones

Radio frequency identification (RFID) tag readers

POS terminals

Networking routers and switches

Security cameras

During fiscal 2010, 2009 and 2008, sales of our mixed-signal products accounted for substantially all of our revenue.

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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 28% and 14% of our revenues during fiscal 2010. No other distributor accounted for 10% or more of revenues for fiscal 2010.

During fiscal 2010, our ten largest end customers accounted for 36% of our revenues. We had no single end customer that accounted for more than 10% of our revenues during this period. Our major customers include Apple, Cisco, Huawei, LG Electronics, Nokia, Pace (formerly Philips), Panasonic, Samsung, Technicolor (formerly Thomson) and Varian Medical Systems.

We maintain numerous sales offices in North America, Europe and Asia. Revenue is attributed to a geographic area based on the end customer's shipped-to location. The percentage of our revenues to customers located outside of the United States was 86% in fiscal 2010. For further information regarding our revenues and long-lived assets by geographic area, see Note 16, *Segment Information*, to the Consolidated Financial Statements.

Our direct sales force includes regional sales managers in the field and area business managers to further support customer communications. 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 information 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 required to bring a product to market. A design-win occurs when a customer has designed our ICs into its product architecture. 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,

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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 apply our 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 reliable and precise analog and mixed-signal ICs can only be developed by teams of engineers that coordinate their efforts under the direction of senior 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 a critical activity in releasing a new product for commercial success. We believe that we have attracted some of the best engineers in our industry.

Research and development expenses were \$123.8 million, \$104.4 million and \$101.2 million in fiscal 2010, 2009 and 2008, 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 help 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 design expertise in CMOS;

Digital signal processing 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 Design Expertise in CMOS

We believe that our most significant core competency is world-class analog 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

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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 Design Expertise

We consider the partitioning of a circuit to be a proprietary and creative design technique. Our digital signal processing design expertise maximizes the price/performance characteristics of both the analog and digital functions and allows our ICs to work in an optimized manner to accomplish particular tasks. Generally, we surround core analog circuitry with digital CMOS transistors, which allow our ICs to perform the required analog functions with increased digital capabilities. 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.

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.

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Manufacturing

As a fabless IC manufacturer, 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 2010, 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 2011.

Backlog

As of January 1, 2011, our backlog was approximately \$87.5 million, compared to approximately \$74.2 million as of January 2, 2010. 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;	Power requirement;
Level of integration;	Customer support;
Product capabilities;	Reputation;
Reliability;	Ability to rapidly introduce new products to
Price;	market; and
Performance;	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.

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As we target and supply products to numerous markets and applications, we face competition from a relatively large number of competitors. We compete with Analog Devices, Atmel, Broadcom, Conexant, Cypress, Epson, Freescale, IDT, Lantiq, LSI, Maxim Integrated Products, Microchip, NXP Semiconductors, Renesas, Sony Semiconductor, ST-Ericsson, STMicroelectronics, Texas Instruments, Vectron International, Zarlink Semiconductor and others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors and start-up semiconductor design companies. 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. As the markets for electronic products grow, we also may face competition from traditional electronic device companies. These companies may enter the mixed-signal semiconductor market by introducing their own products, including components within their products that would eliminate the need for our ICs, or by entering into strategic relationships with or acquiring other existing IC providers.

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 January 1, 2011, we had approximately 1,040 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 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.

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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 January 1, 2011, we employed 845 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. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our website and the information contained therein or connected thereto are not intended to be incorporated into this 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;

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

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

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

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

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

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

Changes in product mix;

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

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

Changes in market standards;

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

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

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

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

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

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

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

Requirements of customers;

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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 in fiscal 2010 was \$123.8 million, or 25.1% 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 2010, our ten largest customers accounted for 36% 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

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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.

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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.

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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;

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.

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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,

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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 increased our international activities significantly and plan to continue such efforts, which subjects us to additional business risks including increased logistical and financial complexity, political instability and currency fluctuations

We have established additional international subsidiaries and have opened additional offices in international markets to expand our international activities in Europe and Asia. This has included the establishment of a headquarters in Singapore for non-U.S. operations. The percentage of our revenues derived from customers located outside of the United States was 86% during fiscal 2010. 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:

Increased 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.

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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

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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

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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, including our modem products, FM tuners or ProSLIC;

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

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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:

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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;

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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, 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

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deficiencies, which could lower our gross margins. If our foundries fail to deliver fabricated silicon wafers of satisfactory quality in a timely manner, we will be unable to meet our customers' demand for our products in a timely manner, which would adversely affect our operating results and damage our customer relationships.

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

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

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

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

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

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.

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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

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

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

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

Products for certain applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure

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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.

Item 1B. Unresolved Staff Comments

The staff of the SEC reviewed our Annual Report on Form 10-K for the year ended January 2, 2010 and issued a letter dated June 30, 2010. We believe that all matters addressed in that letter have been resolved, except that we are still in discussions regarding whether we may exclude disclosure of the historical performance targets used for named executive officer compensation on the basis that such disclosure could result in competitive harm.

Item 2. Properties

Our primary facilities, housing engineering, sales and marketing, administration and test operations, are located in Austin, Texas. Our Austin, Texas operations currently occupy approximately 190,000 square feet of leased floor space with lease terms expiring in 2013. In addition to these properties, we lease smaller facilities in various locations in the United States, China, France, Germany, Hungary, Ireland, Japan, Portugal, 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

Securities Litigation

On December 6, 2001, a class action complaint for violations of U.S. federal securities laws was filed in the United States District Court for the Southern District of New York against us, four of our officers individually and the three investment banking firms who served as representatives of the underwriters in connection with our initial public offering of common stock. The Consolidated Amended Complaint alleges that the registration statement and prospectus for our initial public offering did not disclose that (1) the underwriters solicited and received additional, excessive and undisclosed commissions from certain investors, and (2) the underwriters had agreed to allocate shares of the offering in exchange for a commitment from the customers to purchase additional shares in the aftermarket at pre-determined higher prices. The Complaint alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The action seeks damages in an unspecified amount and is being coordinated with approximately 300 other nearly identical actions filed against other companies. A court order dated October 9, 2002 dismissed without prejudice our four officers who had been named individually. On December 5, 2006, the Second Circuit vacated a decision by the District Court granting class certification in six of the coordinated cases, which are intended to serve as test, or "focus" cases. The plaintiffs selected these six cases, which do not include us. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the District Court to certify more narrow classes than those that were rejected.

The parties in the approximately 300 coordinated cases, including the parties in the case against us, reached a settlement. The insurers for the issuer defendants in the coordinated cases will make the settlement payment on behalf of the issuers, including us. On October 5, 2009, the Court granted final approval of the settlement. Judgment was entered on January 10, 2010. Six notices of appeal and one petition seeking permission to appeal were filed before the United States Court of Appeals for the Second Circuit. Two appeals are proceeding on behalf of objectors to the settlement. Plaintiffs have

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moved to dismiss both appeals. The motions are fully briefed. The remaining objectors withdrew their appeals with prejudice.

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

Other

We are involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our consolidated financial position or results of operations.

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 31, 2011, there were 131 holders of record of our common stock.

	High	Low
Fiscal Year 2009		
First Quarter	\$ 28.13	\$ 20.40
Second Quarter	39.29	26.19
Third Quarter	49.08	34.59
Fourth Quarter	49.06	40.56
Fiscal Year 2010		
First Quarter	\$ 49.10	\$ 41.98
Second Quarter	53.17	39.84
Third Quarter	44.28	34.10
Fourth Quarter	47.47	35.66

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.

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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 and the NASDAQ Electronic Components Index.

Company / Index	12/31/05	12/30/06	12/29/07	01/03/09	01/02/10	01/01/11
Silicon Laboratories Inc.	\$ 100.00	\$ 94.52	\$ 102.76	\$ 69.72	\$ 131.97	\$ 125.53
NASDAQ Composite	\$ 100.00	\$ 112.51	\$ 122.09	\$ 72.15	\$ 104.22	\$ 122.52
NASDAQ Electronic Components	\$ 100.00	\$ 94.09	\$ 108.44	\$ 55.40	\$ 90.25	\$ 102.76

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- (1) The graph assumes that \$100 was invested in our common stock and in each index at the market close on December 31, 2005, 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.

Table of Contents**Issuer Purchases of Equity Securities**

The following table summarizes repurchases of our common stock during the three months ended January 1, 2011:

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
October 3, 2010 - October 30, 2010		\$		\$ 110,000,013
October 31, 2010 - November 27, 2010		\$		\$ 110,000,013
November 28, 2010 - January 1, 2011		\$		\$ 110,000,013
Total		\$		

In July 2010, our Board of Directors authorized a program to repurchase up to \$150 million of our common stock through 2011. 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.

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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				
	2010	2009	2008	2007	2006
(in thousands, except per share data)					
<i>Consolidated Statements of Income Data</i>					
Revenues	\$ 493,341	\$ 441,020	\$ 415,630	\$ 337,461	\$ 288,156
Operating income	86,671	66,511	43,656(3)	23,097	6,052
Income from continuing operations	73,242	73,092(2)	32,935(3)	39,687	15,343
Income from discontinued operations, net of income taxes				165,149(5)	15,815
Net income	\$ 73,242	\$ 73,092(2)	\$ 32,935(3)	\$ 204,836(5)	\$ 31,158
Income from continuing operations per share:					
Basic	\$ 1.63	\$ 1.62	\$ 0.68	\$ 0.72	\$ 0.28
Diluted	\$ 1.57	\$ 1.57	\$ 0.67	\$ 0.70	\$ 0.27
<i>Consolidated Balance Sheet Data</i>					
Cash, cash equivalents and investments	\$ 383,362(1)	\$ 434,899	\$ 325,360(4)	\$ 572,974(6)	\$ 386,292
Working capital	414,073(1)	435,359	289,716(4)	599,300(6)	402,085
Total assets	727,658(1)	742,838	624,245(4)	840,246(6)	686,995
Long-term obligations	22,372	24,403	48,789	43,309	16,691
Total stockholders' equity	625,430(1)	629,796	502,460(4)	703,545	568,682

- (1) Reflects repurchases of our common stock in fiscal 2010.
- (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.
- (4) Reflects repurchases of our common stock in fiscal 2008.
- (5)

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Includes a gain on the sale of our Aero® product lines, net of related income taxes.

- (6) Includes proceeds from the sale of our Aero product lines, less repurchases of our common stock in fiscal 2007.

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 2010 and 2009 were 52-week years and ended on January 1, 2011 and January 2, 2010, respectively. Fiscal year 2008 was a 53-week year with the extra week occurring in the first quarter and ended on January 3, 2009.

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Overview

We design and develop proprietary, analog-intensive, mixed-signal integrated circuits (ICs) for a broad range of applications. Mixed-signal ICs are electronic components that convert real-world analog signals, such as sound and radio waves, into digital signals that electronic products can process. Therefore, mixed-signal ICs are critical components in a broad range of applications in a variety of markets, including communications, consumer, industrial, automotive, medical and power management. Our major customers include Apple, Cisco, Huawei, LG Electronics, Nokia, Pace (formerly Philips), Panasonic, Samsung, Technicolor (formerly Thomson) and Varian Medical Systems.

As a "fabless" semiconductor company, we rely on third-party semiconductor fabricators in Asia, and to a lesser extent the United States and Europe, to manufacture the silicon wafers that reflect our IC designs. Each wafer contains numerous die, which are cut from the wafer to create a chip for an IC. We rely on third-parties in Asia to assemble, package, and, in most cases, test these devices and ship these units to our customers. Testing performed by such third parties facilitates faster delivery of products to our customers (particularly those located in Asia), shorter production cycle times, lower inventory requirements, lower costs and increased flexibility of test capacity.

Our expertise in analog-intensive, high-performance, mixed-signal ICs enables us to develop highly differentiated solutions that address multiple markets. We group our products into the following categories:

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

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

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

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

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce next generation ICs with added functionality and further integration. In April 2010, we 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 CMOS wafers. The acquired technology is aligned with our efforts to leverage our CMOS-based timing products into high-volume applications such as consumer electronics. In October 2010, we acquired ChipSensors Ltd, a privately held company that created innovative single-chip CMOS sensors designed to detect temperature, humidity and gases.

In fiscal 2010, we introduced a bridge chip family that simplifies the addition of USB and touch sense connectivity in embedded designs, the expansion of our automotive portfolio with a family of highly integrated AM/FM tuners for car stereos, frequency flexible in-circuit programmable CMOS clock generators, isolated gate drivers designed for high-power Class D audio systems, power management ICs that improve efficiency in Power over Ethernet (PoE) equipment, a Class D amplifier ideal for many portable radios and docking stations, a wireless IC solution designed to be a remote control on a chip, low power capacitive touch-sense microcontrollers, digital isolators and isolated gate drivers designed to replace traditional optocouplers, a digital TV demodulator that combines satellite, terrestrial and cable digital video broadcast (DVB) functions in one highly integrated device, a frequency-flexible timing IC solution for networking and telecommunications applications, a family of ultra-low-power wireless microcontrollers ideal for battery-powered systems and a highly integrated AM/FM receiver for analog tuned radios. We plan to continue to introduce products that increase the

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content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expanding our total available market opportunity.

We had no customers that accounted for more than 10% of our revenues during fiscal 2010 or 2008. During fiscal 2009, we had one customer, Samsung, whose purchases across a variety of product areas represented 16% of our total revenues. 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 28% and 14% of our revenues during fiscal 2010, and 27% and 10% of our revenues during fiscal 2009, respectively. Edom represented 31% of our revenues during fiscal 2008. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2010, 2009 or 2008.

The percentage of our revenues derived from customers located outside of the United States was 86% in fiscal 2010 and 88% in fiscal 2009 and 2008. 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, personal video recorders, set-top boxes, portable navigation devices and mobile handsets, we expect that the demand for our products will be typically subject to some degree of seasonal demand. However, rapid changes in our markets and across our product areas make it difficult for us to accurately estimate the impact of seasonal factors on our business.

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

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for our products. These discounts are made for a variety of reasons, including: 1) to establish a relationship with a new customer, 2) as an incentive for customers to purchase products in larger volumes, 3) to provide profit margin to our distributors who resell our products or 4) in response to competition. In addition, as a product matures, we expect that the average selling price for such product will decline due to the greater availability of competing products. Our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as our ability to develop or acquire new products and subsequently achieve customer acceptance of newly introduced products.

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

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

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

In-Process Research and Development. In-process research and development (IPR&D) represents acquired technology resulting from business combinations that had not achieved technological feasibility as of the acquisition closing date and had no alternative future use. For acquisitions occurring prior to fiscal 2009, these costs were expensed on the date of acquisition. Beginning in fiscal 2009, IPR&D is capitalized until the related projects are completed, at which time they begin to be amortized. IPR&D is written-off if the related projects are abandoned.

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

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

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

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

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

	Year Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Revenues	100.0%	100.0%	100.0%
Cost of revenues	34.3	36.6	38.5
Gross margin	65.7	63.4	61.5
Operating expenses:			
Research and development	25.1	23.7	24.3
Selling, general and administrative	23.0	24.7	24.2
In-process research and development			2.5
Operating expenses	48.1	48.4	51.0
Operating income	17.6	15.0	10.5
Other income (expense):			
Interest income	0.4	0.7	2.5
Interest expense	0.0	0.0	(0.1)
Other income (expense), net	(0.3)	0.0	(0.1)
Income before income taxes	17.7	15.7	12.8
Provision (benefit) for income taxes	2.9	(0.9)	4.9
Net income	14.8%	16.6%	7.9%

Comparison of Fiscal 2010 to Fiscal 2009

Revenues

(in millions)	Year Ended			%
	January 1, 2011	January 2, 2010	Change	
Revenues	\$ 493.3	\$ 441.0	\$ 52.3	11.9%

The growth in revenues in fiscal 2010 was due primarily to improvements in the health of our products' end markets and increases in market share. Unit volumes of our products increased compared to fiscal 2009 by 2.8%. Average selling prices increased during the same period by 9.3%. 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)	Year Ended			%
	January 1, 2011	January 2, 2010	Change	
Gross margin	\$ 324.2	\$ 279.8	\$ 44.4	15.9%
Percent of revenue	65.7%	63.4%		

The increase in the dollar amount of gross margin in fiscal 2010 was primarily due to our increased sales. The increase in gross margin as a percent of revenue in fiscal 2010 was primarily due to changes in product mix, improvements in our inventory management and manufacturing cost

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reductions. 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)	Year Ended		Change	% Change
	January 1, 2011	January 2, 2010		
Research and development	\$ 123.8	\$ 104.4	\$ 19.4	18.6%
Percent of revenue	25.1%	23.7%		

The increase in research and development expense in fiscal 2010 was principally due to an increase of \$15.0 million for personnel-related expenses. We expect that research and development expense will continue to increase in absolute dollars in the first quarter of 2011.

Recent development projects include a bridge chip family that simplifies the addition of USB and touch sense connectivity in embedded designs, the expansion of our automotive portfolio with a family of highly integrated AM/FM tuners for car stereos, frequency flexible in-circuit programmable CMOS clock generators, isolated gate drivers designed for high-power Class D audio systems, power management ICs that improve efficiency in PoE equipment, a Class D amplifier ideal for many portable radios and docking stations, a wireless IC solution designed to be a remote control on a chip, low power capacitive touch-sense microcontrollers, digital isolators and isolated gate drivers designed to replace traditional optocouplers, a digital TV demodulator that combines satellite, terrestrial and cable DVB functions in one highly integrated device, a frequency-flexible timing IC solution for networking and telecommunications applications, a family of ultra-low-power wireless microcontrollers ideal for battery-powered systems and a highly integrated AM/FM receiver for analog tuned radios.

In-Process Research and Development

In connection with the purchase of Silicon Clocks, we acquired certain in-process research and development (IPR&D) assets. These costs were capitalized until the related projects are completed, at which time they begin to be amortized. IPR&D is written-off if the related projects are abandoned. The fair value of each project was determined using the income approach. The discount rate applicable to the cash flows was 19.0%. This rate reflects the weighted-average cost of capital and the risks inherent in the development process. The IPR&D recorded in connection with the acquisition consisted of the following (in thousands):

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

We are developing the IPR&D projects using MEMS technology. The remaining research and development efforts include additional design, integration and testing. As of the acquisition date, we projected the costs to complete the projects to be \$8.1 million. Such costs have been consistent with our assumptions at the time of the acquisition. The significant risks associated with the successful completion of these projects include our potential inability to finish the product designs, produce

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working models and gain customer acceptance. Failure to complete these projects in a timely manner could result in lost revenues.

Selling, General and Administrative

(in millions)	Year Ended		Change	% Change
	January 1, 2011	January 2, 2010		
Selling, general and administrative	\$ 113.8	\$ 108.8	\$ 5.0	4.5%
Percent of revenue	23.0%	24.7%		

The increase in selling, general and administrative expense in fiscal 2010 was principally due to an increase of \$2.1 million for legal fees, primarily related to acquisition-related costs and litigation. The decrease in selling, general and administrative expense as a percent of revenues in fiscal 2010 is due to our increased sales. We expect that selling, general and administrative expense will increase in absolute dollars in the first quarter of 2011.

Interest Income

(in millions)	Year Ended		Change
	January 1, 2011	January 2, 2010	
Interest income	\$ 2.3	\$ 2.7	\$ (0.4)

The decrease in interest income in fiscal 2010 was largely due to lower interest rates on the underlying instruments, partially offset by a higher average investment balance.

Interest Expense

Interest expense in fiscal 2010 was \$0.1 million compared to \$0.2 million in fiscal 2009.

Other Income (Expense), Net

Other income (expense), net in fiscal 2010 was \$(1.3) million compared to \$(0.1) million in fiscal 2009. The change was primarily due to foreign currency remeasurement adjustments.

Provision (Benefit) for Income Taxes

(in millions)	Year Ended		Change
	January 1, 2011	January 2, 2010	
Provision (benefit) for income taxes	\$ 14.4	\$ (4.1)	\$ 18.5
Effective tax rate	16.4%	(6.0)%	

The effective tax rate for fiscal 2010 increased from the prior period, primarily due to the resolution of uncertain tax positions as a result of entering into an Advance Pricing Agreement with the U.S. Internal Revenue Service during the fourth quarter of fiscal 2009. In addition, the effective tax rate for fiscal 2010 increased from the prior period due to the intercompany license of certain technology obtained in the acquisition of Silicon Clocks during the second quarter of fiscal 2010. The increase in the effective tax rate was partially offset by an increase in the federal research and development credit in fiscal 2010.

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

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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 2009 to Fiscal 2008**Revenues**

(in millions)	Year Ended		Change	% Change
	January 2, 2010	January 3, 2009		
Revenues	\$ 441.0	\$ 415.6	\$ 25.4	6.1%

The growth in revenues in fiscal 2009 was driven primarily by market share gains. Increased unit volumes outpaced declines in average selling prices. Unit volumes of our products increased compared to fiscal 2008 by 19.6%. Average selling prices decreased during the same period by 10.8%.

Gross Margin

(in millions)	Year Ended		Change	% Change
	January 2, 2010	January 3, 2009		
Gross margin	\$ 279.8	\$ 255.8	\$ 24.0	9.4%
Percent of revenue	63.4%	61.5%		

The increase in the dollar amount of gross margin in fiscal 2009 was primarily due to our increased sales. The increase in gross margin as a percent of revenue in fiscal 2009 was primarily due to a charge of \$2.2 million to record inventory acquired from Integration Associates at fair value during fiscal 2008, improvements in our inventory management and manufacturing cost reductions.

Research and Development

(in millions)	Year Ended		Change	% Change
	January 2, 2010	January 3, 2009		
Research and development	\$ 104.4	\$ 101.2	\$ 3.2	3.2%
Percent of revenue	23.7%	24.3%		

The increase in research and development expense in fiscal 2009 was principally due to an increase of \$3.7 million for personnel-related expenses, including personnel costs associated with the acquisition of Integration Associates. The decrease in research and development expense as a percent of revenues is due to our increased sales.

Selling, General and Administrative

(in millions)	Year Ended		Change	% Change
	January 2, 2010	January 3, 2009		
Selling, general and administrative	\$ 108.8	\$ 100.7	\$ 8.1	8.1%
Percent of revenue	24.7%	24.2%		

The increase in selling, general and administrative expense in fiscal 2009 was principally due to an increase of \$8.7 million for personnel-related expenses, including personnel costs associated with the acquisition of Integration Associates.

Table of Contents**In-Process Research and Development**

In-process research and development (IPR&D) recorded in connection with the acquisition of Integration Associates was \$10.3 million in fiscal 2008. The IPR&D projects included optoelectronic, power, and radio transmitter and transceiver technologies. The optoelectronic projects are used for infrared data communications and proximity sensing. The power projects enable AC-DC conversion in power supply systems. The radio transmitters and transceivers projects enable the delivery of data over proprietary, short range wireless links. The fair value of each project was determined using the income approach. The discount rate applicable to the cash flows was 20%. This rate reflects the weighted-average cost of capital and the risks inherent in the development process.

There was no acquisition of IPR&D in fiscal 2009.

Interest Income

(in millions)	Year Ended		Change
	January 2, 2010	January 3, 2009	
Interest income	\$ 2.7	\$ 10.4	\$ (7.7)

The decrease in interest income for the recent period was due to lower interest rates on the underlying instruments and lower average cash and investment balances.

Interest Expense

Interest expense in fiscal 2009 was \$0.2 million compared to \$0.4 million in fiscal 2008.

Other Income (Expense), Net

Other income (expense), net in fiscal 2009 was \$(0.1) million compared to \$(0.6) million in fiscal 2008.

Provision (Benefit) for Income Taxes

(in millions)	Year Ended		Change
	January 2, 2010	January 3, 2009	
Provision (benefit) for income taxes	\$ (4.1)	\$ 20.2	\$ (24.3)
Effective tax rate	(6.0)%	38.0%	

The effective tax rate for fiscal 2009 decreased from the prior period, primarily due to resolution of uncertain tax positions as a result of entering into an Advance Pricing Agreement with the U.S. Internal Revenue Service during the fourth quarter of fiscal 2009. In addition, the effective tax rate for fiscal 2009 decreased from the prior period due to the intercompany license of certain technology and the non-deductible write-off of in-process research and development costs during fiscal 2008, both of which were related to the acquisition of Integration Associates.

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, the limited deductibility of stock compensation expense and other permanent items including changes to the liability for unrecognized tax benefits.

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Business Outlook

We expect revenues in the first quarter of fiscal 2011 to be in the range of \$116 to \$122 million. Furthermore, we expect our diluted earnings per share, exclusive of expected charges related to the January 2011 acquisition of Spectra Linear, to be in the range of \$0.14 to \$0.20.

Liquidity and Capital Resources

Our principal sources of liquidity as of January 1, 2011 consisted of \$365.9 million in cash, cash equivalents and short-term investments. Our cash equivalents and short-term investments consist primarily of corporate bonds, U.S. Treasury bills, money market funds, variable-rate demand notes, municipal bonds, U.S. government agency bonds and discount notes, international government bonds, certificates of deposit and commercial paper.

Our long-term investments consist of auction-rate securities. Early in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of January 1, 2011, we held \$19.7 million par value auction-rate securities, all of which have experienced failed auctions. The securities had previously been valued using quoted prices in active markets. When the auctions began to fail, quoted prices for the securities were no longer observable. As such, we changed our fair value measurement methodology for all auction-rate securities from quoted prices in active markets to a 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.

The underlying assets of our auction-rate securities consisted of student loans and municipal bonds, of which \$17.7 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of January 1, 2011, \$17.7 million of the auction-rate securities had credit ratings of AAA and \$2.0 million had credit ratings of A. These securities had contractual maturity dates ranging from 2029 to 2046 and were yielding 0.6% to 3.3% per year at January 1, 2011. 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. We do not intend to sell, and we believe that it is not more likely than not that we will be required to sell, our auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value.

Net cash provided by operating activities was \$117.9 million during fiscal 2010, compared to net cash provided of \$120.9 million during fiscal 2009. Operating cash flows during fiscal 2010 reflect our net income of \$73.2 million, adjustments of \$60.0 million for depreciation, amortization, stock compensation and deferred income taxes, and a net cash outflow of \$15.3 million due to changes in our operating assets and liabilities.

Accounts receivable decreased to \$45.0 million at January 1, 2011 from \$56.1 million at January 2, 2010. The decrease in accounts receivable resulted primarily from a decrease in shipments during the last quarter of fiscal 2010 compared to the last quarter of the prior year. Our average days sales outstanding (DSO) was 36 days at January 1, 2011 and 40 days at January 2, 2010.

Inventory increased to \$39.4 million at January 1, 2011 from \$31.5 million at January 2, 2010. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. The increase in inventory over the prior year resulted primarily from actual demand falling short of our forecasted demand. Our average days of inventory (DOI) was 87 days at January 1, 2011 and 65 days at January 2, 2010.

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Net cash used in investing activities was \$55.2 million during fiscal 2010, compared to net cash used of \$104.3 million during fiscal 2009. The decrease was principally due to a decrease of \$79.7 million in net outflows for purchases of investments, offset by an increase in net payments of \$23.7 million for the acquisition of businesses.

We anticipate capital expenditures of approximately \$15 to \$20 million for fiscal 2011. Additionally, as part of our growth strategy, we expect to evaluate opportunities to invest in or acquire other businesses, intellectual property or technologies that would complement or expand our current offerings, expand the breadth of our markets or enhance our technical capabilities. On January 25, 2011, we acquired Spectra Linear, a privately held company, for approximately \$40 million in cash, subject to certain working capital adjustments, plus potential additional consideration of up to \$10 million tied to the revenue of the acquired products exceeding \$16 million during 2011.

Net cash used in financing activities was \$119.9 million during fiscal 2010, compared to net cash provided of \$6.9 million during fiscal 2009. The decrease in cash flows was principally due to an increase of \$120.2 million for repurchases of our common stock. In July 2010, our Board of Directors authorized a program to repurchase up to \$150 million of our common stock prior to the end of 2011.

Contractual Obligations

The following table summarizes our contractual obligations as of January 1, 2011 (in thousands):

	Total	Payments due by period					Thereafter
		2011	2012	2013	2014	2015	
Operating lease obligations(1)	\$ 26,123	\$ 7,676	\$ 7,542	\$ 3,423	\$ 1,522	\$ 1,475	\$ 4,485
Purchase obligations(2)	38,506	38,475	31				
Other long-term obligations(3)	2,464		2,100	100			264

- (1) Operating lease obligations include amounts for leased facilities.
- (2) 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.
- (3) 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 \$10.8 million for unrecognized tax benefits is not included in the table above. See Note 15, *Income Taxes*, 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 and investment balances are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing.

Off-Balance Sheet Arrangements

In March 2006, we entered into an operating lease agreement and a related participation agreement for a facility at 400 W. Cesar Chavez ("400 WCC") in Austin, Texas for our corporate headquarters. The lease has a term of seven years. The base rent for the term of the lease is an amount equal to the interest accruing on \$44.3 million at 110 basis points over the three-month LIBOR

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(which would be approximately \$1.4 million over the remaining term assuming LIBOR averages 0.30% during such term).

In March 2008, we entered into an operating lease agreement and a related participation agreement for a facility at 200 W. Cesar Chavez ("200 WCC") in Austin, Texas for the expansion of our corporate headquarters. The lease has a term of five years. The base rent for the term of the lease is an amount equal to the interest accruing on \$50.1 million at 155 basis points over the three-month LIBOR (which would be approximately \$2.1 million over the remaining term assuming LIBOR averages 0.30% during such term).

We have granted certain rights and remedies to the lessors in the event of certain defaults, including the right to terminate the leases, to bring suit to collect damages, and to compel us to purchase the facilities. The leases contain other customary representations, warranties, obligations, conditions, indemnification provisions and termination provisions, including covenants that we shall maintain unencumbered cash and highly-rated short-term investments of at least \$75 million. If our unencumbered cash and highly-rated short-term investments are less than \$150 million, we must also maintain a ratio of funded debt to earnings before interest expense, income taxes, depreciation, amortization, lease expense and other non-cash charges (EBITDAR) over the four prior fiscal quarters of no greater than 2 to 1. As of January 1, 2011, we believe we were in compliance with all covenants of the leases.

During the terms of the leases, we have on-going options to purchase the buildings for purchase prices of approximately \$44.3 million for 400 WCC and \$50.1 million for 200 WCC. Alternatively, we can cause each such property to be sold to third parties provided we are not in default under that property's lease. We are contingently liable on a first dollar loss basis for up to \$35.3 million to the extent that the 400 WCC sale proceeds are less than the \$44.3 million purchase option and up to \$40.0 million to the extent that the 200 WCC sale proceeds are less than the \$50.1 million purchase option.

We determined that the fair value associated with the guaranteed residual values was \$1.0 million for 400 WCC and \$1.2 million for 200 WCC, as of the inception of the leases. These amounts were recorded in "Other assets, net" and "Long-term obligations and other liabilities" in the Consolidated Balance Sheets and are being amortized over the term of the leases.

We are required to periodically evaluate the expected fair value of each facility at the end of the lease terms. If we determine that it is estimable and probable that the expected fair values will be less than \$44.3 million for 400 WCC and \$50.1 million for 200 WCC, we will ratably accrue the loss up to a maximum of approximately \$35.3 million and \$40.0 million, respectively, over the remaining lease terms as additional rent expense. As of January 1, 2011, we do not believe that a loss contingency accrual is required for either property. However, a prolonged economic downturn could increase the likelihood of such a loss accrual.

In connection with our headquarters leases, during fiscal 2008 we entered into interest rate swap agreements as a hedge against the variable rent under the leases. Under the terms of the swap agreements, we have effectively converted the variable rents to fixed rents through March 2011 for 400 WCC and March 2013 for 200 WCC. See Note 5, *Derivative Financial Instruments*, to the Consolidated Financial Statements for additional information.

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

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policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition, including the deferral of revenues and cost of revenues on sales to distributors; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

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

Stock-based compensation We recognize the fair-value of stock-based compensation transactions in the Consolidated Statement of Income. The fair value of our stock-based awards is estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes valuation calculation requires us to estimate key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. Expected stock price volatility is based on implied volatility from traded options on our stock in the marketplace and historical volatility of our stock. The expected term of options granted is derived from an analysis of historical exercises and remaining contractual life of stock options, and represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield. 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 12, *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 or it is not more likely than not that we will be required to sell the security before recovery,

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

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

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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 December 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations*. This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The ASU clarifies that when presenting comparative financial statements, an entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this ASU is not expected to have a material impact on our financial statements.

In January 2010, the FASB issued FASB ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. This ASU requires new disclosures about significant transfers in and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. The ASU also clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. We adopted ASU 2010-06 at the beginning of fiscal 2010, except for the separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements, which is effective for us at the beginning of fiscal 2011. The adoption of this ASU did not have a material impact, and the deferred provisions of this ASU are not expected to have a material impact, on 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 January 1, 2011 and January 2, 2010 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of January 1, 2011 and January 2, 2010 would decrease our annual interest income by approximately \$2.2 million and \$2.6 million, respectively. We believe that our investment policy is conservative, both in the duration of our investments and the credit quality of the investments we hold.

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Headquarters Lease Rent

We are exposed to interest rate fluctuations in the normal course of our business, including through our corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. We have 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 fair value of the interest rate swap agreements at January 1, 2011 was a \$3.8 million obligation.

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 January 1, 2011, we held \$19.7 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 January 1, 2011 to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures. There was no change in our internal controls during the fiscal quarter ended January 1, 2011 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.

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Our management assessed the effectiveness of our internal control over financial reporting as of January 1, 2011. 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 January 1, 2011, 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 31, 2011.

Name	Age	Position
Navdeep S. Sooch	48	Chairman of the Board
Necip Sayiner	45	Chief Executive Officer, President and Director
William G. Bock	60	Chief Financial Officer and Senior Vice President
Jonathan D. Ivester	55	Senior Vice President of Worldwide Operations
Kurt W. Hoff	53	Vice President of Worldwide Sales
Paul V. Walsh, Jr.	46	Chief Accounting Officer and Vice President of Finance
David R. Welland	55	Vice President and Director
Harvey B. Cash	72	Director
R. Ted Enloe III	72	Director
Kristen M. Onken	61	Director
Laurence G. Walker	62	Director
William P. Wood	55	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. 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 operations and qualifies him to serve as Chairman of our Board of Directors.

Necip Sayiner has served as director, President and Chief Executive Officer of Silicon Laboratories since September 2005. Prior to joining Silicon Laboratories, Mr. Sayiner held various leadership positions at Agere Systems Inc. From August 2004 to September 2005, Mr. Sayiner served as Vice

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President and General Manager of Agere's Enterprise and Networking Division and from March 2002 to August 2004 he served as Vice President and General Manager of Agere's Networking IC Division. Mr. Sayiner holds a B.S. in electrical engineering and physics from Bosphorus University in Turkey, an M.S. in Electrical Engineering from Southern Illinois University, and a Ph.D. in Electrical Engineering from the University of Pennsylvania. Mr. Sayiner's experience and understanding of our business gained through his role as our President and Chief Executive Officer qualifies him to serve as a member of our Board of Directors.

William G. Bock has served as Senior Vice President of Finance and Administration and Chief Financial Officer since November 2006. Mr. Bock 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 his current role. From April 2001 to November 2006, Mr. Bock participated in the venture capital industry, principally as a partner with CenterPoint Ventures. From February 1997 to March 2001, Mr. Bock led DAZEL Corporation, a provider of electronic information delivery systems, initially as its President and Chief Executive Officer and subsequent to its acquisition by Hewlett-Packard in June 1999 as an HP Vice President and General Manager. Prior to 1997, Mr. Bock served as Chief Operating Officer of Tivoli Systems, a client server software company acquired by IBM in March 1996, in senior sales and financial management positions with Convex Computer Corporation and began his career with Texas Instruments. Mr. Bock holds a B.S. in Computer Science from Iowa State University and an M.S. in Industrial Administration from Carnegie Mellon University.

Jonathan D. Ivester joined Silicon Laboratories in September 1997 as Vice President. He served as Vice President of Worldwide Operations since May 2005. Mr. Ivester was promoted to Senior Vice President of Worldwide Operations in June 2008. From May 1984 to September 1997, 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 was a scientist at Bechtel Corporation, an engineering and construction company, from 1980 to 1982 and at Abcor, Inc., an ultrafiltration company and subsidiary of Koch Industries, from 1978 to 1980. Mr. Ivester holds a B.S. in Chemistry from the Massachusetts Institute of Technology and an M.B.A. from Stanford University.

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.

Paul V. Walsh joined Silicon Laboratories in January 2004 as Director of Finance, Worldwide Operations, and was appointed Corporate Controller in March 2005. In November 2006, Mr. Walsh was promoted to Vice President and Chief Accounting Officer. 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.

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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 provides him with extensive insight into our operations and qualifies 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. Previously, Mr. Enloe served as President and Chief Executive Officer of Optisoft, Inc., a provider of intelligent traffic signal platforms. 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 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

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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.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

- (a)
1. Financial Statements

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<u>Report of independent registered public accounting firm</u>	<u>F-1</u>
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<u>Consolidated Balance Sheets at January 1, 2011 and January 2, 2010</u>	<u>F-3</u>
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<u>Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended January 1, 2011, January 2, 2010 and January 3, 2009</u>	<u>F-5</u>
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<u>Notes to Consolidated Financial Statements</u>	<u>F-7</u>

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.

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(b)

Exhibits

Exhibit Number

- 2.1* Agreement and Plan of Merger, dated January 22, 2011, by and among Silicon Laboratories Inc., Sophia Merger Sub, Inc., Spectra Linear, Inc. and Shareholder Representative Services LLC (filed as Exhibit 2.1 to the Form 8-K filed January 26, 2011).
- 3.1* Form of Fourth Amended and Restated Certificate of Incorporation of Silicon Laboratories Inc. (filed as Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Securities and Exchange Commission File No. 333-94853) (the "IPO Registration Statement")).
- 3.2* Second Amended and Restated Bylaws of Silicon Laboratories Inc (filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 3, 2004).
- 4.1* Specimen certificate for shares of common stock (filed as Exhibit 4.1 to the IPO Registration Statement).
- 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*+ Employment Agreement dated November 3, 2006 between Silicon Laboratories Inc. and William Bock (filed as Exhibit 10.1 to the Form 8-K filed November 8, 2006).
- 10.9* 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).
- 10.10* 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).

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Exhibit

Number

- 10.11* 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).
- 10.12* 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).
- 10.13*+ Amendment to Stock Options Agreement between Silicon Laboratories Inc. and William G. Bock dated July 19, 2007 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 20, 2007).
- 10.14* 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).
- 10.15* 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).
- 10.16*+ 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).
- 10.17*+ 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).
- 10.18*+ 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).
- 10.19*+ 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).
- 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
- 101.LAB** XBRL Taxonomy Extension Label Linkbase Document

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Exhibit

Number

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

*

Incorporated herein by reference to the indicated filing.

**

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

+

Management contract or compensatory plan or arrangement

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Name	Title	Date
<u>/s/ DAVID R. WELLAND</u> David R. Welland	Vice President and Director	February 10, 2011
<u>/s/ HARVEY B. CASH</u> Harvey B. Cash	Director	February 10, 2011
<u>/s/ ROBERT TED ENLOE, III</u> Robert Ted Enloe, III	Director	February 10, 2011
<u>/s/ KRISTEN M. ONKEN</u> Kristen M. Onken	Director	February 10, 2011
<u>/s/ LAURENCE G. WALKER</u> Laurence G. Walker	Director	February 10, 2011
<u>/s/ WILLIAM P. WOOD</u> William P. Wood	Director	February 10, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Silicon Laboratories Inc.

We have audited Silicon Laboratories Inc.'s internal control over financial reporting as of January 1, 2011, 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 January 1, 2011, 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 January 1, 2011 and January 2, 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended January 1, 2011 and our report dated February 10, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 10, 2011

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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. as of January 1, 2011 and January 2, 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three fiscal years in the period ended January 1, 2011. 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 January 1, 2011 and January 2, 2010, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended January 1, 2011, 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 January 1, 2011, 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 10, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 10, 2011

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

	January 1, 2011	January 2, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 138,567	\$ 195,737
Short-term investments	227,295	214,486
Accounts receivable, net of allowance for doubtful accounts of \$772 at January 1, 2011 and \$567 at January 2, 2010	45,030	56,128
Inventories	39,450	31,512
Deferred income taxes	9,140	7,620
Prepaid expenses and other current assets	34,447	18,515
Total current assets	493,929	523,998
Long-term investments	17,500	24,676
Property and equipment, net	29,945	27,785
Goodwill	112,296	105,109
Other intangible assets, net	53,242	41,886
Other assets, net	20,746	19,384
Total assets	\$ 727,658	\$ 742,838
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,433	\$ 28,759
Accrued expenses	25,604	25,399
Deferred income on shipments to distributors	26,127	28,470
Income taxes	3,692	6,011
Total current liabilities	79,856	88,639
Long-term obligations and other liabilities	22,372	24,403
Total liabilities	102,228	113,042
Commitments and contingencies		
Stockholders' equity:		
Preferred stock \$0.0001 par value; 10,000 shares authorized; no shares issued and outstanding		
Common stock \$0.0001 par value; 250,000 shares authorized; 43,933 and 45,772 shares issued and outstanding at January 1, 2011 and January 2, 2010, respectively	4	5
Additional paid-in capital	49,947	128,262
Retained earnings	579,127	505,885
Accumulated other comprehensive loss	(3,648)	(4,356)
Total stockholders' equity	625,430	629,796
Total liabilities and stockholders' equity	\$ 727,658	\$ 742,838

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

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

	January 1, 2011	Year Ended January 2, 2010	January 3, 2009
Revenues	\$ 493,341	\$ 441,020	\$ 415,630
Cost of revenues	169,097	161,267	159,845
Gross margin	324,244	279,753	255,785
Operating expenses:			
Research and development	123,821	104,394	101,205
Selling, general and administrative	113,752	108,848	100,674
In-process research and development			10,250
Operating expenses	237,573	213,242	212,129
Operating income	86,671	66,511	43,656
Other income (expense):			
Interest income	2,318	2,725	10,449
Interest expense	(77)	(180)	(433)
Other income (expense), net	(1,253)	(90)	(556)
Income before income taxes	87,659	68,966	53,116
Provision (benefit) for income taxes	14,417	(4,126)	20,181
Net income	\$ 73,242	\$ 73,092	\$ 32,935
Earnings per share:			
Basic	\$ 1.63	\$ 1.62	\$ 0.68
Diluted	\$ 1.57	\$ 1.57	\$ 0.67
Weighted-average common shares outstanding:			
Basic	44,845	45,023	48,109
Diluted	46,742	46,542	48,989

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

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

	Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of December 29, 2007	52,810	\$ 5	\$ 303,682	\$ 399,858	\$	\$ 703,545
Comprehensive income:						
Net income				32,935		32,935
Unrealized losses on available-for-sale securities, net of tax of \$1,297					(2,406)	(2,406)
Unrealized losses on cash flow hedges, net of tax of \$1,961					(3,642)	(3,642)
Total comprehensive income						26,887
Stock issuances under employee plans, net of shares withheld for taxes	972		4,266			4,266
Income tax benefit from employee stock-based awards			963			963
Repurchases of common stock	(9,371)	(1)	(280,286)			(280,287)
Stock-based compensation			40,565			40,565
Purchase acquisition	202		6,521			6,521
Balance as of January 3, 2009	44,613	4	75,711	432,793	(6,048)	502,460
Comprehensive income:						
Net income				73,092		73,092
Unrealized gains on available-for-sale securities, net of tax of \$(522)					969	969
Unrealized gains on cash flow hedges, net of tax of \$(389)					723	723
Total comprehensive						74,784

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	income						
	Stock issuances under employee plans, net of shares withheld for taxes	1,669	1	25,186			25,187
	Income tax benefit from employee stock-based awards			3,890			3,890
	Repurchases of common stock	(633)		(20,181)			(20,181)
	Stock-based compensation	123		43,656			43,656
Balance as of January 2, 2010		45,772	5	128,262	505,885	(4,356)	629,796
	Comprehensive income:						
	Net income				73,242		73,242
	Unrealized gains on available-for-sale securities, net of tax of \$(143)					266	266
	Unrealized gains on cash flow hedges, net of tax of \$(238)					442	442
	Total comprehensive income						73,950
	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
						Interest only	4.00% May 5
Shoppes at TJ Maxx	\$33,880	3.88 %	May 2020	5,818	5,908		
Twin City Commons	\$17,827	4.86 %	January 2023	3,140	3,170		
Tampa Festival	\$50,797	5.56 %	September 2023	8,436	8,502		
Forrest Gallery	\$50,973	5.40 %	September 2023	8,736	8,802		
South Carolina Food Lions Note	\$68,320	5.25 %	January 2024	12,138	12,224		
Cypress Shopping Center	\$34,360	4.70 %	July 2024	6,535	6,585		
Port Crossing	\$34,788	4.84 %	August 2024	6,317	6,370		
Freeway Junction	\$41,798	4.60 %	September 2024	8,057	8,119		
Harrodsburg Marketplace	\$19,112	4.55 %		3,585	3,617		

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				September 2024		
Graystone Crossing	\$20,386	4.55 %		October 2024	3,959	3,990
Bryan Station	\$23,489	4.52 %		November 2024	4,583	4,619
Crockett Square	Interest only	4.47 %		December 2024	6,338	6,338
Pierpont Centre	Interest only	4.15 %		February 2025	8,113	8,450
Alex City Marketplace	Interest only	3.95 %		April 2025	5,750	5,750
Butler Square	Interest only	3.90 %		May 2025	5,640	5,640
Brook Run Shopping Center	Interest only	4.08 %		June 2025	10,950	10,950
Beaver Ruin Village I and II	Interest only	4.73 %		July 2025	9,400	9,400
Sunshine Shopping Plaza	Interest only	4.57 %		August 2025	5,900	5,900
Barnett Portfolio	Interest only	4.30 %		September 2025	8,770	8,770
Fort Howard Shopping Center	Interest only	4.57 %		October 2025	7,100	7,100
Conyers Crossing	Interest only	4.67 %		October 2025	5,960	5,960
Grove Park Shopping Center	Interest only	4.52 %		October 2025	3,800	3,800
Parkway Plaza	Interest only	4.57 %		October 2025	3,500	3,500
Winslow Plaza	Interest only	4.82 %		December 2025	4,620	4,620
Chesapeake Square	\$23,857	4.70 %		August 2026	4,539	4,578
Sangaree/Tri-County/Berkley	Interest only	4.78 %		December 2026	9,400	9,400
Riverbridge	Interest only	4.48 %		December 2026	4,000	4,000
Franklin	Interest only	4.93 %		January 2027	8,516	8,516
Total Principal Balance					311,438	313,698
Unamortized debt issuance cost					(6,420)	(7,725)
Total Loans Payable					\$305,018	\$ 305,973

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Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
6. Loans Payable (continued)

KeyBank Credit Agreement

On May 29, 2015, the Operating Partnership entered into a \$45.00 million revolving credit line (the "Credit Agreement") with KeyBank National Association ("KeyBank"). Pursuant to the Credit Agreement, outstanding borrowings accrue monthly interest which is paid at a rate of the one-month London Interbank Offer Rate ("LIBOR") plus a margin ranging from 1.75% to 2.50% depending on the Company's consolidated leverage ratio. On April 12, 2016, the Operating Partnership entered into a First Amendment and Joinder Agreement ("First Amendment") to the Credit Agreement. The First Amendment increased the \$45.00 million revolving credit line with KeyBank to \$67.20 million and the Company utilized this additional borrowing capacity to acquire the A-C Portfolio. Pursuant to the terms of the First Amendment, the monthly interest of the increased credit facility is adjusted to LIBOR plus a margin of 5.00% until such time that the Company can meet certain repayment and leverage conditions. The Company used proceeds from the 2016 Series B Preferred Stock Offering to reduce its borrowings under the Credit Agreement to \$46.10 million and the margin reduced back to the stated range of the original Credit Agreement on August 15, 2016. On December 7, 2016, the Operating Partnership entered into a Second Amendment and Joinder Agreement ("Second Amendment") to the Credit Agreement. The Second Amendment increased the line of credit to \$75.0 million. Pursuant to the terms of the Second Amendment, the pricing reverts back to the original Credit Agreement. The unutilized amounts available to the Company under the Credit Agreement accrue fees which are paid at a rate of 0.30%. The Credit Agreement matures in May 2018.

As of June 30, 2017, the Company has borrowed \$68.03 million under the Credit Agreement, which is collateralized by 16 properties. At June 30, 2017, the outstanding borrowings are accruing interest at 3.70%. The Credit Agreement contains certain financial covenants that the Company must meet, including minimum leverage, fixed charge coverage and debt service coverage ratios as well as a minimum tangible net worth requirement. The Company was in compliance with the financial covenants under the Credit Agreement as of June 30, 2017. The Credit Agreement also contains certain events of default that if they occur may cause KeyBank to terminate the Credit Agreement and declare amounts owed to become immediately payable. As of June 30, 2017, the Company has not incurred an event of default.

Senior Convertible Notes Amendment

Effective as of April 28, 2016, the Company and certain investors: Calapasas West Partners, L.P.; Full Value Partners, L.P.; Full Value Special Situations Fund, L.P.; MCM Opportunity Partners, L.P.; Mercury Partners, L.P.; Opportunity Partners, L.P.; Special Opportunities Fund, Inc.; and Steady Gain Partners, L.P. (collectively the "Bulldog Investors") amended the convertible 9% senior notes ("Amended Convertible Notes") to purchase shares of the Company's Common Stock. Prior to the amendment, the aggregate principal amount of the Convertible Notes ("Convertible Notes") was \$3.00 million.

Pursuant to the terms of the Amended Convertible Notes, upon thirty (30) calendar days' notice ("Notice"), the Company may prepay any portion of the outstanding Principal Amount and accrued and unpaid interest, if any, without penalty. In addition, upon Notice the Bulldog Investors may now exercise their right to convert all or any portion of the outstanding Principal Amount and any accrued but unpaid interest into shares of Common Stock any time prior to the repayment in full of the Amended Convertible Notes. The maximum number of shares of Common Stock issuable upon conversion of the Amended Convertible Notes is 1,417,079 shares, pre-reverse split. As of June 30, 2017, the Bulldog Investors have converted approximately \$1.64 million of principal amount into 1,417,079 shares, pre-reverse

split, of the Company's Common Stock, the maximum number of shares allowed.

Folly Road Refinance

On March 22, 2017, the Company executed a promissory note for \$8.57 million to refinance the Folly Road collateralized portion of the KeyBank Credit Agreement totaling \$6.05 million. The loan matures in March 2020 with monthly interest only payments due through April 2018 at which time monthly principal and interest payments begin based on a 25 year amortization. The loan bears interest at 4.00%. As of June 30, 2017, \$6.18 million has been borrowed on the note with the remaining \$2.39 million available for construction and development.

Revere Loan

In May 1, 2017, the Company extended the \$7.45 million Revere Term Loan maturity to April 30, 2018, as permitted within the terms of the loan agreement, with a \$450 thousand principal payment and \$140 thousand extension fee. In June 2017,

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Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
 Notes to Condensed Consolidated Financial Statements (Continued)
 (Unaudited)
 6. Loans Payable (continued)

upon the completion of the sale of Carolina Place, as discussed in Note 3, a \$167 thousand principal payment was made on the loan. The balance on the loan is \$6.83 million at June 30, 2017.

Columbia Fire House Construction Loan

On May 3, 2017, the Company executed a promissory note for \$4.30 million related to construction at Columbia Fire House at which time the original Columbia Fire House note was paid down to \$262 thousand. The loan matures in May 2020 with monthly interest only payments through November 2018 at which time monthly principal and interest payments begin based on a 20 year amortization. The loan bears interest at 4.00%. As of June 30, 2017, \$587 thousand has been borrowed on the note with the remaining \$3.71 million available for construction and development.

Perimeter Refinance

On June 14, 2017, the Company executed a promissory note for \$6.25 million to refinance the Perimeter loan totaling \$4.50 million. The loan matures December 2018 with monthly interest only payments. Principal is due at maturity. The loan bears interest at 5.50%. As of June 30, 2017, \$5.21 million has been borrowed on the note with the remaining \$1.04 million available for tenant improvements.

Rivergate Paydown

With the sale of the Steak n' Shake outparcel at Rivergate, as discussed in Note 3, a \$1.52 million principal payment was made on the loan. The balance on the Rivergate loan was \$22.69 million at June 30, 2017.

Certain of the Company's loans payable have covenants with which the Company is required to comply. As of June 30, 2017, the Company believes it is in compliance with all applicable covenants.

Debt Maturity

The Company's scheduled principal repayments on indebtedness as of June 30, 2017 are as follows (in thousands, unaudited):

For the remaining six months ended December 31, 2017	\$8,815
December 31, 2018	89,097
December 31, 2019	24,640
December 31, 2020	15,622
December 31, 2021	1,720
December 31, 2022	1,944
Thereafter	169,600
Total principal repayments and debt maturities	\$311,438

The Company has considered our short-term (one year or less) liquidity needs and the adequacy of our estimated cash flows from operating activities and other expected financing sources to meet these needs. In particular, we have considered our scheduled principal repayments and debt maturities for the next twelve months of \$87.72 million, which includes the \$68.03 million maturity of the KeyBank Line of Credit. The Company is in the process of

refinancing the \$3.39 million Walnut Hill Plaza loan which has been extended to October 31, 2017, as discussed in Subsequent Events, Note 11. The Company has the ability to repay the Columbia Fire House loan with available funds from the Columbia Fire House Construction Loan. All loans due to mature are collateralized by properties within our portfolio. Additionally, the Company expects to meet the short-term liquidity requirements, through a combination of the following:

- available cash and cash equivalents;
- cash flows from operating activities;
- refinancing of maturing debt; and
- sale of additional properties, if necessary.

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Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
 Notes to Condensed Consolidated Financial Statements (Continued)
 (Unaudited)
 6. Loans Payable (continued)

Management is currently working with lenders to refinance the loans noted above. The loans are expected to have customary interest rates similar to current loans. They are subject to formal lender commitment, definitive documentation and customary conditions.

7. Rentals under Operating Leases

Future minimum rentals to be received under noncancelable tenant operating leases for each of the next five years and thereafter, excluding CAM and percentage rent based on tenant sales volume, as of June 30, 2017 are as follows (in thousands, unaudited):

For the remaining six months ended December 31, 2017	\$22,081
December 31, 2018	40,822
December 31, 2019	34,244
December 31, 2020	26,956
December 31, 2021	20,170
December 31, 2022	15,378
Thereafter	43,874
Total minimum rentals	\$203,525

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Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

8. Equity and Mezzanine Equity

Common Stock One-for-Eight Reverse Stock Split

On February 27, 2017, we announced that our Board of Directors had approved the Reverse Stock Split. The Reverse Stock Split took effect at approximately 5:00 p.m. Eastern Time on March 31, 2017 (the “Effective Time”). At the Effective Time, every eight issued and outstanding shares of Common Stock were converted into one share of Common Stock, and as a result, the number of outstanding shares of Common Stock was reduced from approximately 68,707,755 to approximately 8,588,470. At the Effective Time, the number of authorized shares of Common Stock was also reduced, on a one-for-eight basis, from 150,000,000 to 18,750,000. The par value of each share of Common Stock remained unchanged. No fractional shares were issued in connection with the Reverse Stock Split. Instead, the Company's transfer agent, aggregated all fractional shares that otherwise would have been issued as a result of the Reverse Stock Split and those shares were sold into the market. Shareholders who would otherwise hold a fractional share of the Company's stock received a cash payment from the net proceeds of the sale in lieu of such fractional shares. All share and share-related information presented in this Quarterly Report on Form 10-Q, including our consolidated financial statements, has been retroactively adjusted to reflect the decreased number of shares resulting from the Reverse Stock Split.

Series A Preferred Stock

At June 30, 2017 and December 31, 2016, the Company had 562 and 4,500 shares of no par value Series A Preferred Stock (“Series A Preferred”) issued and outstanding with a \$1,000 liquidation preference per share, or \$562 thousand in aggregate. The Series A Preferred accrues cumulative dividends at a rate of 9% per annum, which is paid quarterly. The Company has the right to redeem the 562 shares of Series A Preferred, on a pro rata basis, at any time at a price equal to 103% of the purchase price for the Series A Preferred plus any accrued but unpaid dividends.

Series B Preferred Stock

At June 30, 2017 and December 31, 2016, the Company had 1,871,244 and 5,000,000 shares of no par value Series B Preferred Stock (“Series B Preferred”) issued and authorized with a \$25.00 liquidation preference per share, or \$46.78 million in aggregate. The Series B Preferred bears interest at a rate of 9% per annum. The Series B Preferred Stock has no redemption rights. However, the Series B Preferred Stock is subject to a mandatory conversion once the 20-trading day volume-weighted average closing price of our Common Stock, \$0.01 par value per share, exceeds \$58 per share; once this weighted average closing price is met, each share of our Series B Preferred Stock will automatically convert into shares of our Common Stock at a conversion price equal to \$40.00 per share. In addition, holders of our Series B Preferred Stock also have the option, at any time, to convert shares of our Series B Preferred Stock into shares of our Common Stock at a conversion price of \$40.00 per share of Common Stock. Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of shares of our Series B Preferred Stock shall be entitled to be paid out of our assets a liquidation preference of \$25.00 per share, plus an amount equal to all accumulated, accrued and unpaid dividends to and including the date of payment. The Series Preferred B Stock has no maturity date and will remain outstanding indefinitely unless subject to a mandatory or voluntary conversion as described above.

In conjunction with the 2014 issuance of Series B Preferred, 1,986,600 warrants were issued. Each warrant permits investors to purchase 0.125 share of Common Stock at an exercise price of \$44 per share, subject to adjustment. The warrants expire in April 2019.

Series D Preferred Stock - Redeemable Preferred Stock

At June 30, 2017 and December 31, 2016, the Company had 2,237,000 and 4,000,000 shares of no par value Series D Preferred Stock (“Series D Preferred”) issued and authorized with a \$25.00 liquidation preference per share, or \$55.93 million in aggregate. Until September 21, 2023, the holders of the Series D Preferred Stock are entitled to receive cumulative cash dividends at a rate of 8.75% per annum of the \$25.00 liquidation preference per share (equivalent to the fixed annual amount of \$2.1875 per share) (the “Initial Rate”). Commencing September 21, 2023, the holders will be entitled to cumulative cash dividends at an annual dividend rate of the Initial Rate increased by 2% of the liquidation preference per annum on each subsequent anniversary thereafter, subject to a maximum annual dividend rate of 14%. Dividends are payable quarterly in arrears on or before January 15th, April 15th, July 15th and October 15th of each year. On or after September 21, 2021, the Company, may at its option, redeem the Series D Preferred Stock, for cash at a redemption price of \$25.00 per share, plus an

Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

8. Equity and Mezzanine Equity (continued)

amount equal to all accrued and unpaid dividends, if any, to and including the redemption date. The holder of the Series D Preferred Stock may convert shares at any time into shares of the Company's Common Stock at an initial conversion rate of \$16.96 per share of Common Stock. On September 21, 2023, the holders of the Series D Preferred Stock may, at their option, elect to cause the Company to redeem any or all of their shares at a redemption price of \$25.00 per share, plus an amount equal to all accrued and unpaid dividends, if any, to and including the redemption date, payable in cash or in shares of Common Stock, or any combination thereof, at the holder's option. The Series D Preferred Stock requires the Company maintain asset coverage of at least 200%. Accretion of Series D Preferred Stock was \$356 thousand for the six months ended June 30, 2017.

Earnings per share

Basic earnings per share for the Company's common shareholders is calculated by dividing income (loss) from continuing operations, excluding amounts attributable to preferred stockholders and the net loss attributable to noncontrolling interests, by the Company's weighted-average shares of Common Stock outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) attributable to common shareholders, excluding amounts attributable to preferred shareholders and the net loss attributable to noncontrolling interests, by the weighted-average number of common shares including any dilutive shares.

As of June 30, 2017, the below shares are able to be converted to Common Stock. The common units, convertible preferred stock, cumulative convertible preferred stock, and warrants have been excluded from the Company's diluted earnings per share calculation because their inclusion would be antidilutive. In addition to the below, 750,000 shares of the Company's Common Stock may be issued upon exercise of a warrant, solely in the event of a default under a loan agreement in which we serve as a guarantor.

	June 30, 2017	
	Outstanding shares	Potential Dilutive Shares
	(unaudited)	
Common units	699,865	656,899
Series B Preferred Stock	1,871,244	1,169,528
Series D Preferred Stock	2,237,000	3,297,465
Warrants to purchase		329,378

Dividends

Dividends were declared to holders of common units, common shares and preferred shares as follows (in thousands):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Common unit and common shareholders	\$3,184	\$3,842	\$7,101	\$7,577
Preferred shareholders	2,494	512	4,977	1,023
Total	\$5,678	\$4,354	\$12,078	\$8,600

On May 22, 2017, the Company declared a quarterly \$0.34 per share dividend payable on or about July 15, 2017 to common shareholders and unitholders of record as of June 30, 2017. Accordingly, the Company has accrued \$3.18

million as of June 30, 2017 for this dividend.

During the three months ended June 30, 2017, the Company declared quarterly dividends of \$2.29 million to preferred shareholders of record as of June 30, 2017 to be paid on July 15, 2017. Accordingly, the Company has accrued \$2.29 million as of June 30, 2017 for this dividend.

Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

8. Equity and Mezzanine Equity (continued)

2015 Long-Term Incentive Plan

On June 4, 2015, the Company's shareholders approved the 2015 Long-Term Incentive Plan (the "2015 Incentive Plan"). The 2015 Incentive Plan allows for issuance of up to 125,000 shares of the Company's Common Stock to employees, directors, officers and consultants for services rendered to the Company.

During the six months ended June 30, 2017, the Company issued 11,465 shares to consultants and employees for services rendered to the Company. The market value of these shares at the time of issuance was approximately \$155 thousand. As of June 30, 2017, there are 41,104 shares available for issuance under the Company's 2015 Incentive Plan.

2016 Long-Term Incentive Plan

On June 15, 2016, the Company's shareholders approved the 2016 Long-Term Incentive Plan (the "2016 Incentive Plan"). The 2016 Incentive Plan allows for issuance of up to 625,000 shares of the Company's Common Stock to employees, directors, officers and consultants for services rendered to the Company.

During the six months ended June 30, 2017, the Company issued 86,831 shares to consultants and employees for services rendered to the Company. The market value of these shares at the time of issuance was approximately \$1.12 million. As of June 30, 2017, there are 533,568 shares available for issuance under the Company's 2016 Incentive Plan.

9. Commitments and Contingencies

Lease Commitments

The following properties are subject to ground leases which requires the Company to make a fixed annual rental payment and includes escalation clauses and renewal options as follows (unaudited, in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Expiration Year
	2017	2016	2017	2016	
Amscot	\$4	\$4	\$9	\$9	2045
Beaver Ruin Village	12	12	23	23	2054
Beaver Ruin Village II	4	5	9	9	2056
Leased office space Charleston, SC	25	24	50	41	2019
Moncks Corner	31	27	61	27	2040
Devine Street	62	55	125	55	2035
Total Ground Leases	\$138	\$127	\$277	\$164	

Future minimum lease payments due under the operating leases, including applicable automatic extension options, as of June 30, 2017 are as follows (in thousands, unaudited):

For the remaining six months ended December 31, 2017	\$264
December 31, 2018	530
December 31, 2019	499
December 31, 2020	433
December 31, 2021	485

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December 31, 2022	488
Thereafter	9,666
Total minimum lease payments	\$12,365

Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

9. Commitments and Contingencies (continued)

Insurance

The Company carries comprehensive liability, fire, extended coverage, business interruption and rental loss insurance covering all of the properties in its portfolio under a blanket insurance policy, in addition to other coverages, such as trademark and pollution coverage that may be appropriate for certain of its properties. Additionally, the Company carries a directors', officers', entity and employment practices liability insurance policy that covers such claims made against the Company and its directors and officers. The Company believes the policy specifications and insured limits are appropriate and adequate for its properties given the relative risk of loss, the cost of the coverage and industry practice; however, its insurance coverage may not be sufficient to fully cover its losses.

Concentration of Credit Risk

The Company is subject to risks incidental to the ownership and operation of commercial real estate. These risks include, among others, the risks normally associated with changes in the general economic climate, trends in the retail industry, creditworthiness of tenants, competition for tenants and customers, changes in tax laws, interest rates, the availability of financing and potential liability under environmental and other laws.

The Company's portfolio of properties is dependent upon regional and local economic conditions and is geographically concentrated in the Northeast, Mid-Atlantic, Southeast and Southwest, which markets represented approximately 4%, 23%, 72% and 1%, respectively, of the total annualized base rent of the properties in its portfolio as of June 30, 2017. The Company's geographic concentration may cause it to be more susceptible to adverse developments in those markets than if it owned a more geographically diverse portfolio. Additionally, the Company's retail shopping center properties depend on anchor stores or major tenants to attract shoppers and could be adversely affected by the loss of, or a store closure by, one or more of these tenants.

Regulatory and Environmental

As the owner of the buildings on our properties, the Company could face liability for the presence of hazardous materials (e.g., asbestos or lead) or other adverse conditions (e.g., poor indoor air quality) in its buildings. Environmental laws govern the presence, maintenance, and removal of hazardous materials in buildings, and if the Company does not comply with such laws, it could face fines for such noncompliance. Also, the Company could be liable to third parties (e.g., occupants of the buildings) for damages related to exposure to hazardous materials or adverse conditions in its buildings, and the Company could incur material expenses with respect to abatement or remediation of hazardous materials or other adverse conditions in its buildings. In addition, some of the Company's tenants routinely handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject the Company or its tenants to liability resulting from these activities. Environmental liabilities could affect a tenant's ability to make rental payments to the Company, and changes in laws could increase the potential liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect the Company's operations. The Company is not aware of any material contingent liabilities, regulatory matters or environmental matters that may exist.

Litigation

The Company is involved in various legal proceedings arising in the ordinary course of its business, including, but not limited to commercial disputes. The Company believes that such litigation, claims and administrative proceedings will not have a material adverse impact on its financial position or its results of operations. The Company records a liability when it considers the loss probable and the amount can be reasonably estimated.

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Wheeler Real Estate Investment Trust, Inc. and Subsidiaries
 Notes to Condensed Consolidated Financial Statements (Continued)
 (Unaudited)

10. Related Party Transactions

The amounts disclosed below reflect the activity between the Company and Mr. Wheeler's affiliates.

	June 30,	
	2017	2016
	(unaudited, in thousands)	
Amounts paid to affiliates	\$17	\$109
Amounts received from affiliates	\$1,241	\$608
Amounts due from affiliates	\$1,803	\$420
Notes receivable	\$12,000	\$—

As discussed in Note 4, the Company has loaned \$11.00 million for the partial funding of Pineland Station Shopping Center in Hilton Head, South Carolina to be known in the future as Sea Turtle Development and loaned \$1.00 million for the sale of land to be used in the development. The Company is performing development, leasing, property and asset management services for Sea Turtle Development. Development fees of 5% of hard costs incurred are paid to the Company. Leasing, property and asset management fees are consistent with those charged for services provided to non-related properties. Amounts due from affiliates include \$653 thousand in accrued interest due at maturity on the notes receivable and \$228 thousand in development fees at June 30, 2017.

11. Subsequent Events

Walnut Hill Extension

On July 18, 2017, the Company extended the \$3.39 million Walnut Hill Loan maturity to October 31, 2017.

KeyBank Credit Agreement

On August 7, 2017, the Company executed a Third Amendment to the KeyBank Credit Agreement (the "Third Amendment"). The Third Amendment changed the interest payment date to the first day of each calendar month and decreased the total commitment on the revolving credit line by \$25 million to \$50 million effective October 7, 2017. The Company and KeyBank agreed Shoppes at Myrtle Park shall continue to be included in the calculation of the Borrowing Base Availability (as defined in the Credit Agreement) through December 21, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this Form 10-Q, along with the consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2016 Form 10-K for the year ended December 31, 2016. All per share amounts, common units and shares outstanding and stock-based compensation amounts for all periods presented reflect our one-for-eight reverse stock split (the "Reverse Stock Split"), which was effective March 31, 2017. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the unaudited condensed consolidated financial statements included in this Form 10-Q.

This Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, including discussion and analysis of our financial condition, anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to our shareholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of our management based on its knowledge and understanding of our business and industry. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "potential," "predicts," "anticipates," "expects," "intends," "plans," "believes," "estimates" or the negative of such terms and variations of these words and similar expressions, although not all forward-looking statements include these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this Form 10-Q. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

The forward-looking statements should be read in light of these factors and the factors identified in the "Risk Factors" sections in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 28, 2017.

Executive Overview

As of June 30, 2017, the Trust, through the Operating Partnership, owned and operated sixty-four centers, one office building, seven undeveloped properties, and one redevelopment project in Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Oklahoma, Tennessee, Kentucky, New Jersey, Pennsylvania and West Virginia. Accordingly, the use of the word "Company" refers to the Trust and its consolidated subsidiaries, except where the context otherwise requires.

New Leases, Leasing Renewals and Expirations

The following table presents selected lease activity statistics for our properties.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Renewals:				
Leases renewed with rate increase (sq feet)	25,040	39,107	117,263	65,188
Leases renewed with rate decrease (sq feet)	35,858	—	52,662	—
Leases renewed with no rate change (sq feet)	47,845	37,654	117,939	43,629
Total leases renewed (sq feet)	108,743	76,761	287,864	108,817
Leases renewed with rate increase (count)	13	13	35	20
Leases renewed with rate decrease (count)	2	—	5	—
Leases renewed with no rate change (count)	8	3	16	6
Total leases renewed (count)	23	16	56	26
Option exercised (count)	10	7	22	11
Weighted average on rate increases (per sq foot)	\$0.81	\$0.71	\$0.72	\$0.88
Weighted average on rate decreases (per sq foot)	\$(1.21)	\$—	\$1.02	\$—
Weighted average rate (per sq foot)	\$(0.21)	\$0.36	\$0.11	\$0.53
Weighted average change over prior rates	(2.45)%	3.57 %	1.25 %	4.78 %
New Leases:				
New leases (sq feet)	33,792	25,732	88,071	44,669
New leases (count)	14	9	32	19
Weighted average rate (per sq foot)	\$13.06	\$21.76	\$13.59	\$18.48

Gross Leasable Area ("GLA") expiring during the next 6 months 3.21 % 2.41 % 3.21 % 2.41 %

Based on recent market trends, we believe that these leases will be renewed at amounts and terms comparable to existing lease agreements.

Dispositions

On June 27, 2017, the Company completed the sale of the 2.14 acre land parcel at Carolina Place for a contract price of \$250 thousand, resulting in a gain of gain of \$11 thousand with net proceeds of \$239 thousand.

On June 26, 2017, the Company completed the sale of Steak n' Shake, a 1.06 acre outparcel at Rivergate, for a contract price of approximately \$2.25 million, resulting in a gain of \$1.03 million with net proceeds of \$2.18 million.

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Three and Six Months Ended June 30, 2017 Compared to the Three and Six Months Ended June 30, 2016

Results of Operations

The following table presents a comparison of the condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016, respectively.

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017		Three Months Ended June 30, 2016		Six Months Ended June 30, 2016		Three Months Ended Changes Change % Change		Six Months Ended Changes Change % Change	
PROPERTY DATA: (in thousands)												
Number of properties owned and leased at period end (1)	64	55	64	55	9	16.36	%	9	16.36	%		
Aggregate gross leasable area at period end (1)	4,902,381	3,750,976	4,902,381	3,750,976	1,151,405	30.70	%	1,151,405	30.70	%		
Ending occupancy rate at period end (1)	93.74	% 93.79	% 93.74	% 93.79	(0.05))%	(0.05))%	(0.05))%	(0.05))%
FINANCIAL DATA:												
Rental revenues	\$11,027	\$8,455	\$22,156	\$15,197	\$2,572	30.42	%	\$6,959	45.79	%		
Asset management fees	500	205	662	460	295	143.90	%	202	43.91	%		
Commissions	194	91	309	244	103	113.19	%	65	26.64	%		
Other non-property income	163	—	299	—	163	—	%	299	—	%		
Tenant reimbursements and other revenues	2,835	2,333	5,615	4,321	502	21.52	%	1,294	29.95	%		
Total Revenue	14,719	11,084	29,041	20,222	3,635	32.80	%	8,819	43.61	%		
EXPENSES:												
Property operations	3,747	2,797	7,741	5,472	950	33.96	%	2,269	41.47	%		
Non-REIT management and leasing services	636	279	907	656	357	127.96	%	251	38.26	%		
Depreciation and amortization	6,309	5,432	12,709	10,312	877	16.15	%	2,397	23.24	%		
Provision for credit losses	168	77	420	165	91	118.18	%	255	154.55	%		
Corporate general & administrative	1,317	2,512	3,549	4,794	(1,195)	(47.57))%	(1,245)	(25.97))%		
Total Operating Expenses	12,177	11,097	25,326	21,399	1,080	9.73	%	3,927	18.35	%		
Operating Income (Loss)	2,542	(13)	3,715	(1,177)	2,555	19,653.85	%	4,892	415.63	%		
Gain on disposal of properties	1,022	—	1,022	—	1,022	—	%	1,022	—	%		
Interest income	360	1	716	2	359	35,900.00	%	714	35,700.00	%		
Interest expense	(4,570)	(3,742)	(8,747)	(6,162)	(828)	(22.13))%	(2,585)	(41.95))%		
Net Loss from Continuing Operations Before Income Taxes	(646)	(3,754)	(3,294)	(7,337)	3,108	82.79	%	4,043	55.10	%		

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Income tax expense	(69)	—	(110)	—	(69)	—	%	(110)	—	%
Net Loss from Continuing Operations	(715)	(3,754)	(3,404)	(7,337)	3,039	80.95	%	3,933	53.61	%
Discontinued Operations										
Income from operations	—	55	16	76	(55)	(100.00)	%	(60)	(78.95)	%
(Loss) gain on disposal of properties	(11)	688	1,502	688	(699)	(101.60)	%	814	118.31	%
Net (Loss) Income from Discontinued Operations	(11)	743	1,518	764	(754)	(101.48)	%	754	98.69	%
Net Loss	(726)	(3,011)	(1,886)	(6,573)	2,285	75.89	%	4,687	71.31	%
Net loss attributable to noncontrolling interests	(13)	(313)	(54)	(646)	300	95.85	%	592	91.64	%
Net Loss Attributable to Wheeler REIT	\$(713)	\$(2,698)	\$(1,832)	\$(5,927)	\$1,985	73.57	%	\$4,095	69.09	%

(1) Excludes the undeveloped land parcels and Riversedge North, our corporate headquarters, and the redevelopment property. Includes assets held for sale.

Same Store and New Store Operating Income

The June 30, 2017 three and six month periods include the combined operations of all properties owned at December 31, 2016 as described in our 2016 Form 10-K. Conversely, the June 30, 2016 three and six month periods include the combined operations of all properties owned at December 31, 2015 as described in our 2015 Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"). In providing the following discussion and analysis of our results of operations, we have separately identified the activities of properties owned for the entire 2016 annual and 2017 three and six month periods (collectively referred to as "same stores") and of those properties acquired after December 31, 2015 (collectively referred to as "new stores"). This illustrates the significant impact these properties acquired during 2016 had on our results of operations.

The following tables provide same store and new store financial information. The discussion below primarily focuses on same store results of operations since nine of the twenty-three 2016 retail acquisitions occurred subsequent to June 30, 2016 and the remaining fourteen acquisitions occurred during the three months ended June 30, 2016.

	Three Months Ended June 30,					
	Same Store		New Store		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands, unaudited)					
Property revenues	\$8,605	\$8,797	\$5,257	\$1,991	\$13,862	\$10,788
Property expenses	2,400	2,274	1,347	523	3,747	2,797
Property Net Operating Income	6,205	6,523	3,910	1,468	10,115	7,991
Asset Management and Commission Revenue	694	296	—	—	694	296
Other non-property income	163	—	—	—	163	—
Other Income	857	296	—	—	857	296
Non-REIT management and leasing services	636	279	—	—	636	279
Depreciation and amortization	3,803	4,470	2,506	962	6,309	5,432
Provision for credit losses	78	77	90	—	168	77
Corporate general & administrative	1,250	1,861	67	651	1,317	2,512
Total Other Operating Expenses	5,767	6,687	2,663	1,613	8,430	8,300
(Loss) gain on disposal of properties	(11)	—	1,033	—	1,022	—
Interest income	360	1	—	—	360	1
Interest expense	(2,753)	(2,736)	(1,817)	(1,006)	(4,570)	(3,742)
Net (Loss) Income from Continuing Operations Before Income Taxes	(1,109)	(2,603)	463	(1,151)	(646)	(3,754)
Income tax expense	(69)	—	—	—	(69)	—
Net (Loss) Income from Continuing Operations	(1,178)	(2,603)	463	(1,151)	(715)	(3,754)
Discontinued Operations						
Income from operations	—	55	—	—	—	55
(Loss) gain on disposal of properties	(11)	688	—	—	(11)	688
Net (Loss) Income from Discontinued Operations	(11)	743	—	—	(11)	743
Net (Loss) Income	\$(1,189)	\$(1,860)	\$463	\$(1,151)	\$(726)	\$(3,011)

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	Six Months Ended June 30,					
	Same Store		New Store		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands, unaudited)					
Property revenues	\$17,339	\$17,527	\$10,432	\$1,991	\$27,771	\$19,518
Property expenses	4,946	4,949	2,795	523	7,741	5,472
Property Net Operating Income	12,393	12,578	7,637	1,468	20,030	14,046
Asset Management and Commission Revenue	971	704	—	—	971	704
Other non-property income	299	—	—	—	299	—
Other Income	1,270	704	—	—	1,270	704
Non-REIT management and leasing services	907	656	—	—	907	656
Depreciation and amortization	7,657	9,350	5,052	962	12,709	10,312
Provision for credit losses	307	165	113	—	420	165
Corporate general & administrative	3,315	4,143	234	651	3,549	4,794
Total Other Operating Expenses	12,186	14,314	5,399	1,613	17,585	15,927
(Loss) gain on disposal of properties	(11)	—	1,033	—	1,022	—
Interest income	716	2	—	—	716	2
Interest expense	(5,353)	(5,156)	(3,394)	(1,006)	(8,747)	(6,162)
Net Loss from Continuing Operations Before Income Taxes	(3,171)	(6,186)	(123)	(1,151)	(3,294)	(7,337)
Income tax expense	(110)	—	—	—	(110)	—
Net Loss from Continuing Operations	(3,281)	(6,186)	(123)	(1,151)	(3,404)	(7,337)
Discontinued Operations						
Income from operations	16	76	—	—	16	76
Gain on disposal of properties	1,502	688	—	—	1,502	688
Net Income from Discontinued Operations	1,518	764	—	—	1,518	764
Net Loss	\$(1,763)	\$(5,422)	\$(123)	\$(1,151)	\$(1,886)	\$(6,573)

Property Revenues

Total same store property revenues for the three and six month periods ended June 30, 2017 were \$8.61 million and \$17.34 million, respectively, compared to \$8.80 million and \$17.53 million, respectively, for the three and six month periods ended June 30, 2016, representing a decrease of \$0.19 million for both periods as a result of the closure of Career Point Business School.

New store revenues for the three and six month periods ended June 30, 2017 were \$5.26 million and \$10.43 million, respectively, compared to \$1.99 million and \$1.99 million, respectively, for the the three and six month periods ended June 30, 2016, representing an increase of \$3.27 million and \$8.44 million, respectively. The three and six month periods ended June 30, 2017 represents a full period of operations reported for the twenty-three retail acquisitions made in 2016. These properties will generate a significant amount of revenue for us and we will benefit from future contractual rent increases and expansion opportunities.

Property Expenses

Total same store property expenses for the three and six month periods ended June 30, 2017 were \$2.40 million and \$4.95 million, respectively, compared to \$2.27 million and \$4.95 million, respectively, for the the three and six month periods ended June 30, 2016, representing an increase of \$126 thousand and a decrease of \$3 thousand, respectively. The increase for the three months ended June 30, 2017 was primarily due to the following:

- \$233 thousand increase in facilities maintenance
- Offset by management fees.

Total property expenses increased primarily due to new store increases of \$824 thousand and \$2.27 million for the three and six month periods ended June 30, 2017, respectively, over the comparable prior year period. There were no significant unusual or non-recurring items included in new store property expenses for the three and six month period ended June 30, 2017.

Property Net Operating Income

Total property net operating income for the three and six month periods ended June 30, 2017 were \$10.12 million and \$20.03 million, respectively, representing an increase of \$2.12 million and \$5.98 million, respectively. New stores accounted for the majority of these increases by generating \$3.91 million and \$7.64 million, respectively, in property net operating income for the three and six month periods ended June 30, 2017, compared to \$1.47 million for both the three and six month periods ended June 30, 2016.

Other Income

Total other income for the three and six month periods ended June 30, 2017 was \$857 thousand and \$1.27 million, respectively, representing an increase of \$561 thousand and \$566 thousand, respectively. The increase is a result of \$163 thousand and \$299 thousand, respectively, of development fees earned on the Sea Turtle Development project and an increase of \$398 thousand and \$267 thousand, respectively, in asset management and commission revenue.

Other Operating Expenses

Same store other operating expenses for the three and six month periods ended June 30, 2017 were \$5.77 million and \$12.19 million, respectively, representing a decrease of \$920 thousand and \$2.13 million, respectively, primarily due to the following:

- \$667 thousand and \$1.69 million decrease, respectively, in depreciation and amortization expense from additional assets becoming fully depreciated;
- \$611 thousand and \$828 thousand decrease, respectively, in general and administrative expenses due to an overall decrease in salaries and compensation partially related to the elimination of Chief Operating Officer role at June 30, 2016;
- Offset by \$357 thousand and \$251 thousand increase, respectively, in non-REIT management and leasing services related to the revenue associated with asset management fees, leasing commissions and development fees; and
- Offset by \$1 thousand and \$142 thousand increase, respectively, in provision for credit losses.

Total other operating expenses increased by \$130 thousand and \$1.66 million, respectively, for the three and six month periods ended June 30, 2017 due to an overall increase in depreciation and amortization resulting from the additional expense associated with the twenty-three properties acquired in 2016 and offset by an overall decrease in general and administrative expenses as noted above.

General and administrative expenses during the three and six month periods ended June 30, 2017 included approximately \$528 thousand and \$1.12 million of non-recurring expenses related to acquisitions, capital events and other miscellaneous costs which are detailed below.

	Three Month Ended June 30, 2017 (unaudited, thousands)	Six Months Ended June 30, 2017 (unaudited, thousands)
Acquisition costs	\$ 339	\$ 599
Capital related costs	166	386
Other	23	130
	\$528	\$ 1,115

Acquisition expenses were primarily related to acquisitions personnel and due diligence of potential acquisitions currently in our pipeline. Other nonrecurring expenses are miscellaneous costs we believe will not be incurred on a going forward basis including non-cash expenses such as vacation accrual, severance and consulting fees which are no longer under contract.

Gain on Disposal of Properties - Operations

Overall, the gain on disposal of properties of \$1.02 million for the three and six month periods ended June 30, 2017 is primarily attributable to the sale of the Steak n' Shake outparcel at Rivergate, as discussed in Note 3.

Interest Income

Same store interest income was \$360 thousand and \$716 thousand, respectively, for the three and six month periods ended June 30, 2017, which represents increases of \$359 thousand and \$714 thousand, respectively, as compared to the same 2016 periods. The increase is primarily attributed to interest income on the Sea Turtle Development note receivable recognized during the three and six months ended June 30, 2017.

Interest Expense

During the three and six month periods ended June 30, 2017, same store interest expense increased \$17 thousand and \$197 thousand, respectively, when compared the period in 2016, primarily due to incremental debt service associated with additional borrowings.

Total interest expense for the three and six month periods ended June 30, 2017 increased by \$828 thousand and \$2.59 million, respectively, which is primarily attributed to amortization of loan costs and the incremental debt service associated with the additional borrowings utilized to acquire the twenty-three retail properties occurring in 2016, nine of which were acquired subsequent to June 30, 2016.

Discontinued Operations

Net (loss) income from discontinued operations totaled \$(11) thousand and \$1.52 million, respectively, for the three and six month periods ended June 30, 2017, compared to a net income of \$743 thousand and \$764 thousand, respectively, for three and six month periods ended June 30, 2016. The six month period increase is due to the sale of Ruby Tuesdays/Outback at Pierpont occurring during the six months ended June 30, 2017 offset by the sale of Starbucks/Verizon occurring during the six months ended June 30, 2016. The three month period decrease is due to the sale of Starbucks/Verizon occurring during the three months ended June 30, 2016 with the Ruby Tuesdays/Outback sale occurring in the first quarter of 2017.

Funds from Operations

We use Funds from Operations ("FFO"), a non-GAAP measure, as an alternative measure of our operating performance, specifically as it relates to results of operations and liquidity. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002). As defined by NAREIT, FFO represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. Most industry analysts and equity REITs, including us, consider FFO to be an appropriate supplemental measure of operating performance because, by excluding gains or losses on dispositions and excluding depreciation, FFO is a helpful tool that can assist in the comparison of the operating performance of a company's real estate between periods, or as compared to different companies. Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income alone as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time, while historically real estate values have risen or fallen with market conditions. Accordingly, we believe FFO provides a valuable alternative measurement tool to GAAP when presenting our operating results.

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Below is a comparison of same and new store FFO, which is a non-GAAP measurement, for the three and six month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,						Period Over Period Changes		
	Same Stores		New Stores		Total		\$	%	
	2017	2016	2017	2016	2017	2016			
	(in thousands, unaudited)								
Net (Loss) Income	\$(1,189)	\$(1,860)	\$463	\$(1,151)	\$(726)	\$(3,011)	\$ 2,285	75.89	%
Depreciation and amortization of real estate assets	3,803	4,470	2,506	962	6,309	5,432	877	16.15	%
Loss (gain) on disposal of properties	11	—	(1,033)	—	(1,022)	—	(1,022)	—	%
Loss (gain) on disposal of properties-discontinued operations	11	(688)	—	—	11	(688)	699	101.60	%
FFO	\$2,636	\$1,922	\$1,936	\$(189)	\$4,572	\$1,733	\$ 2,839	163.82	%
	Six Months Ended June 30,						Period Over Period Changes		
	Same Stores		New Stores		Total		\$	%	
	2017	2016	2017	2016	2017	2016			
	(in thousands, unaudited)								
Net Loss	\$(1,763)	\$(5,422)	\$(123)	\$(1,151)	\$(1,886)	\$(6,573)	\$ 4,687	71.31	%
Depreciation and amortization of real estate assets	7,657	9,350	5,052	962	12,709	10,312	2,397	23.24	%
Loss (gain) on disposal of properties	11	—	(1,033)	—	(1,022)	—	(1,022)	—	%
Gain on disposal of properties-discontinued operations	(1,502)	(688)	—	—	(1,502)	(688)	(814)	(118.31)	%
FFO	\$4,403	\$3,240	\$3,896	\$(189)	\$8,299	\$3,051	\$ 5,248	172.01	%

During the three and six month periods ended June 30, 2017, same store FFO increased \$714 thousand and \$1.16 million, respectively, primarily due to the following:

- \$611 thousand and \$828 thousand, respectively, decrease in general and administrative expenses;
- \$561 thousand and \$566 thousand, respectively, increase in other income as a result of development fees earned on Sea Turtle Development project and asset management and commission revenues;
- \$359 thousand and \$714 thousand, respectively, increase in interest income as a result of notes receivable;
- Offset by \$357 thousand and \$251 thousand, respectively, increase in non-REIT management and leasing services;
- \$318 thousand and \$185 thousand, respectively, decrease in property net operating income; and
- An increase in income tax expense.

Total FFO increased \$2.84 million and \$5.25 million, respectively, for the three and six month periods ended June 30, 2017 compared to the same period in 2016, primarily due to the expansion of operations resulting from the twenty-three retail acquisitions occurring subsequent to March 31, 2016 that contributed incremental new store FFO of \$2.13 million and \$4.09 million, respectively, when compared to the same period prior year.

We believe the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by our operating portfolio and affect the comparability of our period-over-period performance. These items include, but are not limited to, legal settlements, non-cash share-based compensation

expense, non-cash amortization on loans and acquisition costs. Therefore, in addition to FFO, management uses Adjusted FFO ("AFFO"), which we define to exclude such items. Management believes that these adjustments are appropriate in determining AFFO as they are not indicative of the operating performance of our assets. In addition, we believe that AFFO is a useful supplemental measure for the investing

community to use in comparing us to other REITs as many REITs provide some form of adjusted or modified FFO. However, there can be no assurance that AFFO presented by us is comparable to the adjusted or modified FFO of other REITs.

Total AFFO for the three and six month periods ended June 30, 2017 and 2016, respectively, is shown in the table below:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
FFO	\$4,572	\$1,733	\$8,299	\$3,051
Preferred stock dividends	(2,494)	(512)	(4,977)	(1,023)
Preferred stock accretion adjustments	205	88	400	177
FFO available to common shareholders and common unitholders	2,283	1,309	3,722	2,205
Acquisition costs	339	383	599	796
Capital related costs	166	188	386	250
Other non-recurring and non-cash expenses	23	222	130	459
Share-based compensation	224	261	601	411
Straight-line rent	(219)	(135)	(404)	(142)
Loan cost amortization	1,064	645	1,827	835
Accrued interest income	(120)	—	(238)	—
Above (below) market lease amortization	190	—	383	72
Recurring capital expenditures and tenant improvement reserves	(245)	(187)	(451)	(326)
AFFO	\$3,705	\$2,686	\$6,555	\$4,560

The preferred stock accretion adjustments represent the amortization of offering costs associated with raising the Series B and Series D Preferred Stock. Other non-recurring expenses primarily relate to those costs that are related to miscellaneous items that we do not anticipate incurring on a going forward basis.

Liquidity and Capital Resources

At June 30, 2017, our consolidated cash and cash equivalents totaled \$7.05 million compared to consolidated cash and cash equivalents of \$4.86 million at December 31, 2016. Cash flows from operating activities, investing activities and financing activities for the six month period ended June 30, 2017 and 2016 were as follows:

	Six Months Ended		Period Over Period Change	
	June 30,			
	2017	2016	\$	%
	(in thousands)			
Operating activities	\$13,895	\$5,727	\$ 8,168	142.62 %
Investing activities	\$2,252	\$(9,194)	\$ 11,446	124.49 %
Financing activities	\$(13,958)	\$(4,359)	\$(9,599)	(220.21)%

Operating Activities

During the six months ended June 30, 2017, our cash flows from operating activities were \$13.90 million, compared to cash flows from operating activities of \$5.73 million during the six months ended June 30, 2016, representing an increase of \$8.17 million. This increase is primarily the result of a \$4.69 million decrease in our consolidated net loss due to factors discussed in the Results of Operations section above, specifically the incremental decrease in net loss of \$1.03 million from new retail properties that were acquired in 2016. Also impacting operating cash flows is the fluctuation in acquisition deposits included within deferred costs and the timing of the respective acquisitions accompanied by a decrease in cash restricted for operating property reserves offset by an increase of \$2.40 million add-back related to depreciation and amortization.

Investing Activities

During the six months ended June 30, 2017, our cash flows from investing activities were \$2.25 million, compared to cash flows used in investing activities of \$9.19 million during the six months ended June 30, 2016, representing an increase of \$11.45 million due to the following:

\$8.68 million decrease in cash outflows used for the acquisition of the fourteen A-C portfolio properties in 2016;
\$2.42 million increase in cash as a result of the sale of a land parcel at Carolina Place and the Steak n' Shake outparcel at Rivergate;

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\$487 thousand increase in cash received for disposal of properties as a result of the 2017 sale of the Ruby Tuesdays/Outback at Pierpont Shopping Center offset by the 2016 sale of Starbucks/Verizon; and \$969 thousand increase in cash outflows on capital expenditures.

Financing Activities

During the six months ended June 30, 2017, our cash flows used in financing activities were \$13.96 million, compared to \$4.36 million of cash flows used in financing activities during the six months ended June 30, 2016, representing an increase of \$9.60 million due to the following:

- \$10.22 million increase in loan principal payments due to the 2017 refinancing of loans along with paydown of Rivergate and Revere loans as a result of Steak n' Shake and Carolina Place sales.

- \$1.43 million in cash outflows for dividends and distributions primarily as a result of Series B and D preferred stock offerings after June 30, 2016; and

- Partially offset by \$2.76 million decrease in payments for deferred financing costs related to the acquisition of the fourteen A-C Portfolio properties in 2016.

As of June 30, 2017 and December 31, 2016, our debt balances, excluding unamortized debt issuance costs, consisted of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Fixed-rate notes	\$216,874	\$ 211,539
Adjustable-rate mortgages	26,532	28,082
Fixed-rate notes, assets held for sale	—	1,350
Floating-rate line of credit	68,032	74,077
Total debt	\$311,438	\$ 315,048

The weighted-average interest rate and term of our fixed-rate debt are 4.79% and 6.60 years, respectively, at June 30, 2017. We have \$8.82 million of debt maturing during the six months ending December 31, 2017. While we anticipate being able to refinance our maturing loans at reasonable market terms upon maturity, our inability to do so may materially impact our financial position and results of operations. See Footnote 6 included in this Form 10-Q for additional mortgage indebtedness details.

Future Liquidity Needs

In addition to the funding of our ongoing operations, the primary liquidity needs of the Company at June 30, 2017 are \$87.72 million in debt maturities due within the following year, debt service payments, Series B and Series D Preferred Stock dividends (approximately \$9.2 million), margin covenant requirements as detailed in our Credit Agreement with KeyBank and the \$1.44 per share (approximately \$13.49 million) targeted annual Common Stock dividends we are planning to pay on a quarterly basis. Included in the \$87.72 million of debt maturities is the \$68.03 million maturity of the KeyBank Line of Credit, \$3.39 million Walnut Hill Plaza and \$254 thousand Columbia Fire House loan. The Company is in the process of refinancing the Walnut Hill Plaza loan which has been extended to October 31, 2017 and has the ability to repay the Columbia Fire House loan with available funds from the Columbia Fire House Construction Loan. The KeyBank Line of Credit and all loans due are collateralized by properties within our portfolio. Management is currently working with lenders to refinance these loans. Based on our proven ability to refinance debt and obtain alternative sources of capital, and existing market conditions, we believe it to be probable that our plans to meet these obligations will be successful.

Our success in refinancing the debt and executing on our growth strategy will dictate our liquidity needs going forward. If we are unable to execute in these areas, our ability to grow and pay future dividends may be limited without additional capital.

We believe significant opportunities exist in the current commercial real estate environment that will enable us to sufficiently leverage our capital and execute our growth plan. Several factors are contributing to an increased supply in available properties for acquisition, including a significant level of maturities of CMBS debt, strategic shifts by larger REITs to reduce debt levels and exit certain markets. We believe the public REIT model provides a unique growth vehicle whereby we can either acquire properties through traditional third party acquisitions using a combination of cash generated in the capital markets and debt financing; contributions of properties by third parties in exchange for common units issued by the Operating Partnership; and contributions of existing properties owned by Mr. Wheeler and his affiliates in exchange for common units issued by the

Operating Partnership. Additionally, access to public market capital enhances our ability to formulate acquisition structures and terms that better meet our growth strategies.

In addition to liquidity required to fund debt payments, distributions and acquisitions, we may incur some level of capital expenditures during the year for our existing properties that cannot be passed on to our tenants. The majority of these expenditures occur subsequent to acquiring a new property that requires significant improvements to maximize occupancy and lease rates, with an existing property that needs a facelift to improve its marketability or when tenant improvements are required to make a space fit a particular tenant's needs. Significant capital expenditures could also impact our ability to grow and pay future dividends.

Off-Balance Sheet Arrangements

As of June 30, 2017, we have no off-balance sheet arrangements that are likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital resources or capital expenditures.

Recent Accounting Pronouncements

See Note 2 to the consolidated financial statements beginning on page 7 of this Current Report on Form 10-Q.

Critical Accounting Policies

In preparing the condensed consolidated financial statements, we have made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results may differ from these estimates. A summary of our critical accounting policies is included in our 2016 Form 10-K under "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no significant changes to these policies during the six months ended June 30, 2017. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 of the condensed consolidated financial statements included in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is LIBOR.

We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates.

At June 30, 2017, approximately \$216.87 million, or 69.64%, of our debt had fixed interest rates and approximately \$94.56 million, or 30.36%, had variable interest rates. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0%, our cash flow would decrease by approximately \$946 thousand per year. At June 30, 2017, LIBOR was approximately 117 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR was reduced to zero basis points, our cash flow would increase by approximately \$1.11 million per year.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The management of the Trust or the Company, under the supervision and with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to the Trust's management, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2017 (the end of the period covered by this Form 10-Q).

Changes in Internal Control Over Financial Reporting

None.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operation or liquidity.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016 other than the revision of the following risk factor:

The majority of our properties are retail shopping centers and depend on anchor stores or major tenants to attract shoppers and could be adversely affected by the loss of, or a store closure by, one or more of these tenants.

Large, regionally or nationally recognized tenants typically anchor our properties. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants, including our anchor and other major tenants, may fail to comply with their contractual obligations to us, seek concessions in order to continue operations or declare bankruptcy, any of which could result in the termination of such tenants' leases and the loss of rental income attributable to the terminated leases. In addition, certain of our tenants may cease operations while continuing to pay rent, which could decrease customer traffic, thereby decreasing sales for our other tenants at the applicable retail property. In addition to these potential effects of a business downturn, mergers or consolidations among large retail establishments could result in the closure of existing stores or duplicate or geographically overlapping store locations, which could include stores at our retail properties.

Loss of, or a store closure by, an anchor or major tenant could significantly reduce our occupancy level or the rent we receive from our retail properties, and we may not have the right to re-lease vacated space or we may be unable to re-lease vacated space at attractive rents or at all. Moreover, in the event of default by a major tenant or anchor store, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with those parties. The occurrence of any of the situations described above, particularly if it involves an anchor tenant with leases in multiple locations, could seriously harm our performance and could adversely affect the value of the applicable retail property.

As of June 30, 2017, our largest anchor tenant, Bi-Lo, which represents approximately 12.24% of our total annualized base rent announced the closing of two of the fifteen stores located in our portfolio, representing 85,160 square feet and approximately \$1.02 million of annualized base rent. Bi-Lo has ceased operations in one of these stores as of June 30, 2017. In addition, Martin's at Brook Run, representing 58,473 square feet and \$380 thousand of annualized base rent announced store closure set for August 2018. Although we are currently collecting the rent for these leased premises, Bi-Lo's leases expire in 2018 and Martin's in 2020. It is unlikely that they will renew their leases with us. The loss of these anchor tenants at these three properties may result in decrease customer traffic for our other tenants at these properties, thereby decreasing sales for such tenants and may make it more difficult for us to secure tenant lease renewals or new tenants for these properties. Management is currently seeking tenants as backfills to these centers.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit

- 3.1 Articles of Amendment and Restatement of the Registrant. (1)
- 3.2 Articles of Supplementary of the Registrant dated September 16, 2016. (18)
- 3.3 Articles of Supplementary of the Registrant dated December 1, 2016. (20)
- 3.4 Articles of Amendment and Restatement, effective March 31, 2017. (9)
- 3.5 Articles of Amendment and Restatement, effective March 31, 2017. (9)
- 3.6 Amended and Restated Bylaws of Registrant. (2)
- 4.1 Form of Certificate of Common Stock of Registrant. (9)
- 4.2 Form of Certificate of Series B Preferred Stock of Registrant. (3)
- 4.3 Form of Certificate of Series D Preferred Stock of the Registrant. (18)
- 4.4 Form of Warrant Certificate of Registrant. (3)
- 4.5 Form of Warrant Agreement for December 2013/January 2014 Private Placement Offering. (4)
- 4.6 Form of Warrant Agreement with Revere High Yield Fund, LP. (14)
- 4.7 Calapasas West Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.8 Full Value Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.9 Full Value Special Situations Fund, L.P. Amended Convertible Promissory Note. (15)
- 4.10 MCM Opportunity Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.11 Mercury Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.12 Opportunity Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.13 Special Opportunities Fund, Inc. Amended Convertible Promissory Note. (15)
- 4.14 Steady Gain Partners, L.P. Amended Convertible Promissory Note. (15)
- 4.15 Warrant Agreement by and among the Registrant, Computershare, Inc. and Computershare Trust Company, N.A. (3)
- 10.1 Amended and Restated Agreement of Limited Partnership of Wheeler REIT, L.P. (5)

- 10.2 Amendment to the Amended and Restated Agreement of Limited Partnership of Wheeler REIT, L.P. Designation of Series A Convertible Preferred Units. (6)
- 10.3 Amendment to the Amended and Restated Agreement of Limited Partnership of Wheeler REIT, L.P. Designation of Series B Convertible Preferred Units. (19)
- 10.4 Amendment to the Amended and Restated Agreement of Limited Partnership of Wheeler REIT, L.P. Designation of Series D Cumulative Convertible Preferred Units. (18)
- 10.5 Amendment to the Amended and Restated Agreement of Limited Partnership of Wheeler REIT, L.P. Amended Designation of Additional Series D Cumulative Convertible Preferred Units. (20)
- 10.6 Wheeler Real Estate Investment Trust, Inc. 2015 Long-Term Incentive Plan. (21)
- 10.7 Wheeler Real Estate Investment Trust, Inc. 2016 Long-Term Incentive Plan. (17)
- 10.8 Employment Agreement with Jon S. Wheeler. (12)
- 10.9 Employment Agreement with Robin A. Hanisch. (12)
- 10.10 Employment Agreement with Wilkes Graham. (12)
- 10.11 Subordination Agreement. (5)

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10.12	Tax Protection Agreement dated October 24, 2014, by and among Jon S. Wheeler, Wheeler REIT, L.P., and Wheeler Real Estate Investment Trust, Inc. (8)
10.13	Shareholders Rights Agreement, dated March 19, 2015, by and between Wheeler Real Estate Investment Trust, Inc. and Westport Capital Partners LLC as agent on behalf of certain investor. (10)
10.14	Board Observer Rights Agreement, dated March 19, 2015, by and between Wheeler Real Estate Investment Trust, Inc. and MFP Investors, LLC. (10)
10.15	Letter Agreement, dated March 19, 2015, by and between Wheeler Real Estate Investment Trust, Inc. and Jon S. Wheeler. (10)
10.16	Credit Agreement, dated May 29, 2015, between Wheeler REIT, L.P. and KeyBank National Association. (11)
10.17	Term Loan Agreement by and between Wheeler REIT, LP and Revere High Yield Fund, LP dated April 8, 2016. (14)
10.18	First Amendment and Joinder Agreement to KeyBank Credit Agreement dated April 12, 2016. (14)
10.19	Second Amendment and Joinder Agreement to KeyBank Credit Agreement dated December 7, 2016. (13)
10.20	Tax Protection Agreement dated February 8, 2017. (16)
31.1	Certification of the Chief Executive Officer of Wheeler Real Estate Investment Trust, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (22)
31.2	Certification of the Chief Financial Officer of Wheeler Real Estate Investment Trust, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (22)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (22)
101.INS	XBRL Instance Document. (22)
101.SCH	XBRL Taxonomy Extension Schema Document. (22)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase. (22)
101.DEF	XBRL Taxonomy Extension Definition Linkbase. (22)
101.LAB	XBRL Taxonomy Extension Labels Linkbase. (22)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase. (22)

(1) Filed as an exhibit to the Registrant's report on Form 8-K, filed on August 8, 2016 and hereby incorporated by reference.

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- (2) Filed as an exhibit to the Registrant's Registration Statement on Form S-11 (Registration No. 333-177262) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
- (3) Filed as an exhibit to the Registrant's Registration Statement on Form S-11 (Registration No. 333-194831) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
- (4) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on December 18, 2013 and hereby incorporated by reference.
- (5) Filed as an exhibit to the Registrant's Registration Statement on Form S-11 (Registration No. 333-198245) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
- (6) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on April 15, 2015 and hereby incorporated by reference.
- (7) Filed as an exhibit to the Registrant's Report on Form S-8, filed on April 7, 2017 and hereby incorporated by reference.
- (8) Filed as an exhibit to the Registrant's report on Form 8-K, filed on October 30, 2014 and hereby incorporated by reference.
- (9) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on filed on April 3, 2017 and hereby incorporated by reference.
- (10) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on March 19, 2015 and hereby incorporated by reference.
- (11) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on June 2, 2015 and hereby incorporated by reference.

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- (12) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on March 16, 2016 and hereby incorporated by reference.
- (13) Filed as an exhibit to the Registrant's Report on Form 8-K/A, filed on December 12, 2016 and hereby incorporated by reference.
- (14) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on April 12, 2016 and hereby incorporated by reference.
- (15) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on May 2, 2016 and hereby incorporated by reference.
- (16) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on February 10, 2017 and hereby incorporated by reference.
- (17) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on June 16, 2016 and hereby incorporated by reference.
- (18) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on September 20, 2016 and hereby incorporated by reference.
- (19) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on July 15, 2016 and hereby incorporated by reference.
- (20) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on December 5, 2016 and hereby incorporated by reference.
- (21) Filed as an exhibit to the Registrant's Report on Form 8-K, filed on June 8, 2015 and hereby incorporated by reference.
- (22) Filed herewith.

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SIGNATURE

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

WHEELER REAL ESTATE
INVESTMENT TRUST, INC.

By: /s/ WILKES J. GRAHAM
Wilkes J. Graham
Chief Financial Officer

Date: August 8, 2017