

SILICON LABORATORIES INC
Form 10-Q
October 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2013

or

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

For the transition period from _____ to _____

Commission file number: 000-29823

SILICON LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-2793174

(I.R.S. Employer Identification No.)

400 West Cesar Chavez, Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(512) 416-8500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 16, 2013, 43,121,582 shares of common stock of Silicon Laboratories Inc. were outstanding.

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Cautionary Statement

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-Q (as well as documents incorporated herein by reference) may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include declarations

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regarding the intent, belief or current expectations of Silicon Laboratories Inc. and its management and may be signified by the words believe, estimate, expect, intend, anticipate, plan, project, will or similar language. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed under Risk Factors and elsewhere in this report. Silicon Laboratories disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

	September 28, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,539	\$ 105,426
Short-term investments	153,857	176,565
Accounts receivable, net of allowances for doubtful accounts of \$717 at September 28, 2013 and \$670 at December 29, 2012	68,499	78,023
Inventories	44,817	49,579
Deferred income taxes	17,356	16,652
Prepaid expenses and other current assets	51,097	41,437
Total current assets	452,165	467,682
Long-term investments	10,671	11,369
Property and equipment, net	134,398	135,271
Goodwill	227,289	130,265
Other intangible assets, net	136,054	90,750
Other assets, net	39,150	36,629
Total assets	\$ 999,727	\$ 871,966
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 24,885	\$ 29,622
Current portion of long-term debt	5,000	5,000
Accrued expenses	42,639	40,410
Deferred income on shipments to distributors	29,876	30,259
Income taxes	1,457	1,087
Total current liabilities	103,857	106,378
Long-term debt	91,250	95,000
Other non-current liabilities	70,342	20,615
Total liabilities	265,449	221,993
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; 43,093 and 41,879 shares issued and outstanding at September 28, 2013 and December 29, 2012, respectively	4	4
Additional paid-in capital	55,085	10,122
Retained earnings	679,970	640,793

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Accumulated other comprehensive loss		(781)		(946)
Total stockholders' equity		734,278		649,973
Total liabilities and stockholders' equity	\$	999,727	\$	871,966

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Revenues	\$ 146,933	\$ 149,461	\$ 433,851	\$ 410,833
Cost of revenues	58,772	62,968	169,545	166,442
Gross margin	88,161	86,493	264,306	244,391
Operating expenses:				
Research and development	40,662	34,768	115,631	101,943
Selling, general and administrative	37,009	24,495	98,519	82,075
Operating expenses	77,671	59,263	214,150	184,018
Operating income	10,490	27,230	50,156	60,373
Other income (expense):				
Interest income	129	243	616	1,103
Interest expense	(813)	(234)	(2,486)	(299)
Other income (expense), net	(23)	(161)	39	807
Income before income taxes	9,783	27,078	48,325	61,984
Provision for income taxes	3,252	17,054	9,148	17,131
Net income	\$ 6,531	\$ 10,024	\$ 39,177	\$ 44,853
Earnings per share:				
Basic	\$ 0.15	\$ 0.24	\$ 0.92	\$ 1.06
Diluted	\$ 0.15	\$ 0.24	\$ 0.90	\$ 1.04
Weighted-average common shares outstanding:				
Basic	42,684	41,735	42,477	42,279
Diluted	43,922	42,520	43,437	43,261

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

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

	Three Months Ended		Nine Months Ended	
	September 28,	September 29,	September 28,	September 29,
	2013	2012	2013	2012
Net income	\$ 6,531	\$ 10,024	\$ 39,177	\$ 44,853
Other comprehensive income, before tax				
Net changes to available-for-sale securities				
Unrealized gains (losses) arising during the period	653	621	(554)	1,138
Reclassification for gains included in net income			(232)	
Net changes to cash flow hedges				
Unrealized gains (losses) arising during the period	(522)	(760)	622	(898)
Reclassification for losses included in net income	96	1,317	418	2,197
Other comprehensive income, before tax	227	1,178	254	2,437
Provision for income taxes	79	412	89	853
Other comprehensive income	148	766	165	1,584
Comprehensive income	\$ 6,679	\$ 10,790	\$ 39,342	\$ 46,437

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

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

	Nine Months Ended	
	September 28,	September 29,
	2013	2012
Operating Activities		
Net income	\$ 39,177	\$ 44,853
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	10,050	10,247
Net gain on the purchase of property and equipment		(8,457)
Amortization of other intangible assets and other assets	11,051	11,001
Stock-based compensation expense	22,304	23,796
Income tax benefit (detriment) from employee stock-based awards	(621)	2,301
Excess income tax benefit from employee stock-based awards	(284)	(2,470)
Deferred income taxes	6,790	5,024
Changes in operating assets and liabilities:		
Accounts receivable	12,599	(18,470)
Inventories	6,213	(5,994)
Prepaid expenses and other assets	(1,606)	13,283
Accounts payable	(3,017)	9,113
Accrued expenses	(2,864)	(797)
Deferred income on shipments to distributors	(3,169)	5,267
Income taxes	(1,429)	(4,378)
Net cash provided by operating activities	95,194	84,319
Investing Activities		
Purchases of available-for-sale investments	(164,317)	(138,822)
Proceeds from sales and maturities of available-for-sale investments	186,936	209,972
Purchases of property and equipment	(8,984)	(99,720)
Purchases of other assets	(3,499)	(6,146)
Acquisition of businesses, net of cash acquired	(86,441)	(71,852)
Net cash used in investing activities	(76,305)	(106,568)
Financing Activities		
Proceeds from issuance of common stock, net of shares withheld for taxes	11,900	3,035
Excess income tax benefit from employee stock-based awards	284	2,470
Repurchases of common stock	(7,776)	(51,040)
Proceeds from issuance of long-term debt, net		98,325
Payments on debt	(12,184)	
Net cash provided by (used) in financing activities	(7,776)	52,790
Increase in cash and cash equivalents	11,113	30,541
Cash and cash equivalents at beginning of period	105,426	94,964
Cash and cash equivalents at end of period	\$ 116,539	\$ 125,505

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

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Condensed Consolidated Financial Statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the condensed consolidated financial position of Silicon Laboratories Inc. and its subsidiaries (collectively, the Company) at September 28, 2013 and December 29, 2012, the condensed consolidated results of its operations for the three and nine months ended September 28, 2013 and September 29, 2012, the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 28, 2013 and September 29, 2012, and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 28, 2013 and September 29, 2012. All intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated results of operations for the three and nine months ended September 28, 2013 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Condensed Consolidated Financial Statements do not include certain footnotes and financial presentations normally required under U.S. generally accepted accounting principles (GAAP). Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 29, 2012, included in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC) on February 1, 2013.

The Company prepares financial statements on a 52-53 week year that ends on the Saturday closest to December 31. Fiscal 2013 will have 52 weeks and fiscal 2012 had 52 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks.

Revenue Recognition

Revenues are generated almost exclusively by sales of the Company's integrated circuits (ICs). The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable, and 4) collectibility is reasonably assured. Generally, revenue from product sales to direct customers and contract manufacturers is recognized upon shipment.

A portion of the Company's sales are made to distributors under agreements allowing certain rights of return and price protection related to the final selling price to the end customers. Accordingly, the Company defers revenue and cost of revenue on such sales until the distributors sell the

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product to the end customers. The net balance of deferred revenue less deferred cost of revenue associated with inventory shipped to a distributor but not yet sold to an end customer is recorded in the deferred income on shipments to distributors liability on the Consolidated Balance Sheet. Such net deferred income balance reflects the Company's estimate of the impact of rights of return and price protection.

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

In February 2013, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU did not have an impact on the Company's financial statements, but did amend the disclosures for accumulated other comprehensive loss.

2. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income	\$ 6,531	\$ 10,024	\$ 39,177	\$ 44,853
Shares used in computing basic earnings per share	42,684	41,735	42,477	42,279
Effect of dilutive securities:				
Stock options and other stock-based awards	1,238	785	960	982
Shares used in computing diluted earnings per share	43,922	42,520	43,437	43,261
Earnings per share:				
Basic	\$ 0.15	\$ 0.24	\$ 0.92	\$ 1.06
Diluted	\$ 0.15	\$ 0.24	\$ 0.90	\$ 1.04

For the three months ended September 28, 2013 and September 29, 2012 and the nine months ended September 28, 2013 and September 29, 2012, approximately 0.5 million, 0.8 million, 0.4 million and 0.9 million shares, respectively, were not included in the diluted earnings per share calculation since the shares were anti-dilutive.

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Silicon Laboratories Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Cash, Cash Equivalents and Investments

The Company's cash equivalents and short-term investments as of September 28, 2013 consisted of municipal bonds, money market funds, variable-rate demand notes, corporate bonds, commercial paper, certificates of deposit and asset backed securities. The Company's long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of the Company's auction-rate securities failed because sell orders exceeded buy orders. As of September 28, 2013, the Company held \$12.4 million par value auction-rate securities, all of which have experienced failed auctions. The underlying assets of the securities consisted of student loans and municipal bonds, of which \$10.4 million were guaranteed by the U.S. government and the remaining \$2.0 million were privately insured. As of September 28, 2013, \$6.0 million had credit ratings of AA, \$2.0 million had a credit rating of A and \$4.4 million of the auction-rate securities had credit ratings of BBB. These securities have contractual maturity dates ranging from 2033 to 2046 at September 28, 2013. The Company is receiving the underlying cash flows on all of its auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. The Company is unable to predict if these funds will become available before their maturity dates.

The Company does not expect to need access to the capital represented by any of its auction-rate securities prior to their maturities. The Company does not intend to sell, and believes it is not more likely than not that it will be required to sell, its auction-rate securities before their anticipated recovery in market value or final settlement at the underlying par value. The Company believes that the credit ratings and credit support of the security issuers indicate that they have the ability to settle the securities at par value. As such, the Company has determined that no other-than-temporary impairment losses existed as of September 28, 2013.

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

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

	September 28, 2013			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Cash and Cash Equivalents:				
Cash on hand	\$ 39,600	\$	\$	\$ 39,600
Available-for-sale securities:				
Money market funds	61,025			61,025
Commercial paper	9,349			9,349
Certificates of deposit	6,565			6,565
Total available-for-sale securities	76,939			76,939
Total cash and cash equivalents	\$ 116,539	\$	\$	\$ 116,539
Short-term Investments:				
Available-for-sale securities:				
Municipal bonds	\$ 93,405	\$ (13)	\$ 131	\$ 93,523
Variable-rate demand notes	33,225			33,225
Corporate bonds	19,851	(7)	57	19,901
Commercial paper	6,795			6,795
Asset-backed securities	412		1	413
Total short-term investments	\$ 153,688	\$ (20)	\$ 189	\$ 153,857
Long-term Investments:				
Available-for-sale securities:				
Auction rate securities	\$ 12,425	\$ (1,754)	\$	\$ 10,671
Total long-term investments	\$ 12,425	\$ (1,754)	\$	\$ 10,671

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

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

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

	Less Than 12 Months		12 Months or Greater		Total	
As of September 28, 2013	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	\$ 14,453	\$ (13)	\$ 10,671	\$ (1,754)	\$ 14,453	\$ (13)
Auction rate securities					10,671	(1,754)
Corporate bonds						