

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	\$217,106	\$190,098	\$422,490	\$369,126
Cost of revenues	85,814	76,906	166,961	150,773
Gross margin	131,292	113,192	255,529	218,353
Operating expenses:				
Research and development	59,495	52,432	114,323	104,756
Selling, general and administrative	53,796	39,826	99,490	79,981
Operating expenses	113,291	92,258	213,813	184,737
Operating income	18,001	20,934	41,716	33,616
Other income (expense):				
Interest income and other, net	1,609	1,595	4,811	2,171
Interest expense	(4,888)	(4,699)	(9,771)	(4,501)
Income before income taxes	14,722	17,830	36,756	31,286
Provision (benefit) for income taxes	442	1,261	(3,929)	(709)
Net income	\$ 14,280	\$ 16,569	\$ 40,685	\$ 31,995
Earnings per share:				
Basic	\$ 0.33	\$ 0.39	\$ 0.94	\$ 0.76
Diluted	\$ 0.32	\$ 0.38	\$ 0.92	\$ 0.74
Weighted-average common shares outstanding:				
Basic	43,312	42,478	43,138	42,287
Diluted	44,294	43,178	44,106	43,104

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

	June 30, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 194,864	\$ 269,366
Short-term investments	347,416	494,657
Accounts receivable, net	93,830	71,367
Inventories	87,163	73,132
Prepaid expenses and other current assets	52,642	39,120
Total current assets	775,915	947,642
Property and equipment, net	132,021	127,682
Goodwill	396,689	288,227
Other intangible assets, net	192,601	83,144
Other assets, net	95,385	88,387
Total assets	\$1,592,611	\$1,535,082
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 40,323	\$ 38,851
Deferred revenue and returns liability	24,503	--
Deferred income on shipments to distributors	--	50,115
Other current liabilities	74,254	73,359
Total current liabilities	139,080	162,325
Convertible debt	348,233	341,879
Other non-current liabilities	76,830	77,862
Total liabilities	564,143	582,066
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — \$0.0001 par value; 10,000 shares authorized; no shares issued	--	--
Common stock — \$0.0001 par value; 250,000 shares authorized; 43,350 and 42,707 shares issued and outstanding at June 30, 2018 and December 30, 2017, respectively	4	4
Additional paid-in capital	111,984	102,862
Retained earnings	918,440	851,307
Accumulated other comprehensive loss	(1,960)	(1,157)
Total stockholders' equity	1,028,468	953,016
Total liabilities and stockholders' equity	\$1,592,611	\$1,535,082

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

	Six Months Ended	
	June 30,	July 1,
	2018	2017
Operating Activities		
Net income	\$ 40,685	\$ 31,995
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of property and equipment	7,643	7,308
Amortization of other intangible assets and other assets	18,366	13,571
Amortization of debt discount and debt issuance costs	6,354	3,907
Stock-based compensation expense	24,311	21,652
Deferred income taxes	(5,830)	(6,242)
Changes in operating assets and liabilities:		
Accounts receivable	(16,705)	(887)
Inventories	(565)	(7,737)
Prepaid expenses and other assets	(1,759)	12,539
Accounts payable	2,980	2,363
Other current liabilities and income taxes	(17,249)	14
Deferred income, deferred revenue and returns liability	(4,193)	3,251
Other non-current liabilities	(3,260)	(1,169)
Net cash provided by operating activities	<u>50,778</u>	<u>80,565</u>
Investing Activities		
Purchases of available-for-sale investments	(148,437)	(389,234)
Sales and maturities of available-for-sale investments	295,405	92,307
Purchases of property and equipment	(11,406)	(8,390)
Purchases of other assets	(5,893)	(1,784)
Acquisition of business, net of cash acquired	(239,729)	(13,658)
Net cash used in investing activities	<u>(110,060)</u>	<u>(320,759)</u>
Financing Activities		
Proceeds from issuance of long-term debt, net	--	389,468
Payments on debt	--	(72,500)
Repurchases of common stock	(3,397)	--
Payment of taxes withheld for vested stock awards	(18,408)	(14,101)
Proceeds from the issuance of common stock	6,585	6,836
Net cash provided by (used in) financing activities	<u>(15,220)</u>	<u>309,703</u>
Increase (decrease) in cash and cash equivalents	(74,502)	69,509
Cash and cash equivalents at beginning of period	<u>269,366</u>	<u>141,106</u>
Cash and cash equivalents at end of period	<u><u>\$194,864</u></u>	<u><u>\$210,615</u></u>

Non-GAAP Financial Measurements

In addition to the GAAP results provided throughout this document, Silicon Laboratories has provided non-GAAP financial measurements on a basis excluding non-cash and other charges and benefits. Details of these excluded items are presented in the tables below, which reconcile the GAAP results to non-GAAP financial measurements.

The non-GAAP financial measurements do not replace the presentation of Silicon Laboratories' GAAP financial results. These measurements provide supplemental information to assist management and investors in analyzing Silicon Laboratories' financial position and results of operations. Silicon Laboratories has chosen to provide this information to investors to enable them to perform meaningful comparisons of past, present and future operating results and as a means to emphasize the results of core on-going operations.

Unaudited Reconciliation of GAAP to Non-GAAP Financial Measures (In thousands, except per share data)

Non-GAAP Income Statement Items	Three Months Ended June 30, 2018						
	GAAP Measure	GAAP Percent of Revenue	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Non-GAAP Measure	Non-GAAP Percent of Revenue
Revenues	\$217,106						
Gross margin	131,292	60.5%	\$ 294	\$ --	\$2,148	\$133,734	61.6%
Research and development	59,495	27.4%	5,669	6,940	--	46,886	21.6%
Selling, general and administrative	53,796	24.8%	6,156	2,726	4,163	40,751	18.8%
Operating expenses	113,291	52.2%	11,825	9,666	4,163	87,637	40.4%
Operating income	18,001	8.3%	12,119	9,666	6,311	46,097	21.2%

Non-GAAP Earnings Per Share and Income Tax Rate	Three Months Ended June 30, 2018								
	GAAP Measure	GAAP Tax Percentage Rate	Stock Compensation Expense	Intangible Asset Amortization	Acquisition Related Items	Non-cash Interest Expense	Income Tax Adjustments	Non-GAAP Measure	Non-GAAP Tax Percentage Rate
Income before income taxes	\$14,722		\$12,119	\$9,666	\$6,311	\$2,767	\$ --	\$45,585	
Provision for income taxes	442	3.0%					4,559	5,001	11.0%
Net income	\$14,280							\$40,584	
Diluted shares outstanding	44,294							44,294	
Diluted earnings per share	\$ 0.32							\$ 0.92	

Unaudited Forward-Looking Statements Regarding Business Outlook**
(In millions, except per share data)

Business Outlook	Three Months Ending September 29, 2018		
	GAAP Measure	Non-GAAP Adjustments	Non-GAAP Measure
Gross margin	58.5%	1.5%	60.0%
Operating expenses	\$111	\$23-\$24	\$87-\$88
Effective tax rate	0.0%*	11.0%*	11.0%
Diluted earnings per share - low	\$0.40*	\$0.55*	\$0.95
Diluted earnings per share - high	\$0.46*	\$0.55*	\$1.01

* Does not reflect any potential impact resulting from the U.S. Court of Appeals for the Ninth Circuit's decision on July 24, 2018 on the Altera Tax Court case involving the treatment of stock-based compensation in an intercompany cost-sharing arrangement. The Company is currently evaluating the impact of this decision and such impact could be material to its financial statements.

** These financial schedules contain forward-looking statements based on Silicon Labs' current expectations. The words "believe," "estimate," "expect," "intend," "anticipate," "plan," "project," "will" and similar phrases as they relate to Silicon Labs are intended to identify such forward-looking statements. These forward-looking statements reflect the current views and assumptions of Silicon Labs and are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are the following: risks that Silicon Labs may not be able to maintain its historical growth; quarterly fluctuations in revenues and operating results; difficulties developing new products that achieve market acceptance; dependence on a limited number of products and customers; intellectual property litigation risks; risks associated with acquisitions and divestitures; product liability risks; difficulties managing our distributors, manufacturers and subcontractors; inventory-related risks; difficulties managing international activities; risks that Silicon Labs may not be able to manage strains associated with its growth; credit risks associated with our accounts receivable; dependence on key personnel; stock price volatility; geographic concentration of manufacturers, assemblers, test service providers and customers in Asia that subjects Silicon Labs' business and results of operations to risks of natural disasters, epidemics, war and political unrest; debt-related risks; capital-raising risks; the competitive and cyclical nature of the semiconductor industry; average selling prices of products may decrease significantly and rapidly; cyber-attacks against our products and our networks; information technology risks; conflict mineral risks and other factors that are detailed in the SEC filings of Silicon Laboratories Inc. Silicon Labs disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. References in these financial schedules to Silicon Labs shall mean Silicon Laboratories Inc.